

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|-----------------------------------------------------------|-------------------|
| Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Unit Name City of Saginaw | County Saginaw |
| Fiscal Year End June 30, 2006 | Opinion Date December 15, 2006 | Date Audit Report Submitted to State December 27, 2006 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

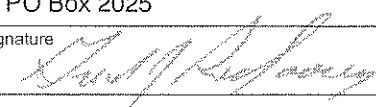
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☒ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☒ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☐ ☒ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | |
|------------------------------------------------------------------------------------------------------------------|------------------------------------------|--------------------------------------------|------------------------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | |
| Financial Statements | <input checked="" type="checkbox"/> | | |
| The letter of Comments and Recommendations | <input type="checkbox"/> | Will be forwarded | |
| Other (Describe) | <input type="checkbox"/> | | |
| Certified Public Accountant (Firm Name) Rehmann Robson | | Telephone Number 989 799-9580 | |
| Street Address 5800 Gratiot, PO Box 2025 | | City Saginaw | State MI |
| Zip 48605 | | | |
| Authorizing CPA Signature  | Printed Name Gerald J. Desloover, CPA | | License Number 1101007126 |



Annual Financial Report

**For the Fiscal Year Ended
June 30, 2006**



ANNUAL FINANCIAL REPORT
OF THE
CITY OF SAGINAW, MICHIGAN

For the Fiscal Year Ended June 30, 2006
As Prepared by the Fiscal Services Department

CITY COUNCIL

Carol B. Cottrell, Mayor
Wilmer J. Ham
Greg Branch
Larry Coulouris
William Federspiel
Willie Haynes
Amanda Kitterman
Amos O'Neal
Andrew Wendt

CITY MANAGER

Darnell Earley

DEPARTMENT OF FISCAL SERVICES

Dale Stanton
Finance Director
Dan Vela
Treasurer

CONTROLLER DIVISION

Patricia Mindykowski
City Controller

| | <u>PAGES</u> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|
| <u>FINANCIAL</u> | |
| Independent Auditors' Report | 1-2 |
| Management Discussion and Analysis | 3-10 |
| <i><u>Basic Financial Statements</u></i> | |
| Government-wide Financial Statements: | |
| Statement of Net Assets | 11 |
| Statement of Activities | 12 |
| Fund Financial Statements: | |
| Balance Sheet - Governmental Funds | 13-14 |
| Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets | 15 |
| Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds | 16 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 17 |
| Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual | |
| General Fund | 18 |
| Community Development Fund | 19 |
| Statement of Net Assets - Proprietary Funds | 20-21 |
| Reconciliation of Net Assets on the Statement of Net Assets for Enterprise Funds to Net Assets of Business-type Activities on the Statement of Net Assets | 22 |
| Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds | 23 |
| Reconciliation of the Statement of Revenues, Expenses and Changes in Fund Net Assets of Enterprise Funds to the Statement of Activities | 24 |
| Statement of Cash Flows - Proprietary Funds | 25 |

Basic Financial Statements
(continued)

| | |
|--------------------------------------------------------------------------------------|-------|
| Statement of Fiduciary Net Assets - Fiduciary Funds | 26 |
| Statement of Changes in Fiduciary Net Assets - Policemen and Firemen Pension Fund | 27 |
| Combining Statement of Net Assets - Component Units | 28 |
| Combining Statement of Activities - Component Units | 29 |
| Notes to Basic Financial Statements | 30-55 |

Required Supplementary Information

| | |
|-------------------------------------------------------------------------------------------------------|----|
| GASB Statement No. 25 Required Supplementary Information – Policemen and Firemen Retirement System | 56 |
|-------------------------------------------------------------------------------------------------------|----|

Supplementary Information

General Fund

| | |
|---------------------------------------------------------------------------------------|-------|
| Balance Sheet | 57 |
| Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual | 58 |
| Schedule of Departmental and Miscellaneous Revenues - Budget and Actual | 59-60 |
| Schedule of Appropriations and Expenditures - Budget and Actual | 61-63 |

Nonmajor Governmental Funds

| | |
|--------------------------------------------------------------------------------------------------------------------------------------------|-------|
| Combining Balance Sheet | 64-65 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balances | 66-67 |
| Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Major Streets Special Revenue Fund | 68 |
| Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Local Streets Special Revenue Fund | 69 |
| Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Rubbish Collection Special Revenue Fund | 70 |
| Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Police Grants Funds Special Revenue Fund | 71 |
| Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Drug Forfeiture Fund Special Revenue Fund | 72 |
| Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Andersen Center Operation Special Revenue Fund | 73 |

Supplementary Information
(continued)

Nonmajor Governmental Funds (continued)

| | |
|----------------------------------------------------------------------------------------------------------------------------------------|----|
| Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Boat Launch Operation Special Revenue Fund | 74 |
| Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual – Economic Development Special Revenue Fund | 75 |

Nonmajor Enterprise Funds

| | |
|-----------------------------------------------------------------------------|----|
| Combining Statement of Net Assets | 76 |
| Combining Statement of Revenues, Expenses and Changes in Fund Net Assets | 77 |
| Combining Statement of Cash Flows | 78 |

Internal Service Funds

| | |
|-----------------------------------------------------------------------------|----|
| Combining Statement of Net Assets | 79 |
| Combining Statement of Revenues, Expenses and Changes in Fund Net Assets | 80 |
| Combining Statement of Cash Flows | 81 |

Fiduciary Funds

| | |
|------------------------------------------------------------------------------------------------------|----|
| Employee Pension and Other Benefits Trust Funds Combining Statement of Plan Net Assets | 82 |
| Employee Pension and Other Benefits Trust Funds Combining Statement of Changes in Plan Net Assets | 83 |
| Combining Balance Sheet - Agency Funds | 84 |

Component Units

| | |
|------------------------------------------------------------------------------------------------------|----|
| Combining Balance Sheet - TIFA Component Units | 85 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balances - TIFA Component Units | 86 |
| Combining Balance Sheet - DDA Component Units | 87 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balances - DDA Component Units | 88 |
| Combining Balance Sheet - LDFA Component Units | 89 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balances - LDFA Component Units | 90 |
| Balance Sheet - Brownfield Component Unit | 91 |
| Statement of Revenues, Expenditures and Changes in Fund Balances - Brownfield Component Unit | 92 |

FINANCIAL



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

December 15, 2006

Honorable Mayor and
Members of City Council
City of Saginaw
Saginaw, Michigan 48601

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the ***City of Saginaw, Michigan***, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the ***City of Saginaw, Michigan's*** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The financial statements of the Saginaw Economic Development Commission (SEDC) have not been included in the City's financial statements. Accounting principles generally accepted in the United States of America require the SEDC to be presented as a discretely presented component unit. The amount by which this departure would affect the assets, liabilities, revenues and expenses of the aggregate discretely presented component units is not reasonably determinable.

In our opinion, except for the effects of not including the SEDC in the aggregate discretely presented component units, as described in the preceding paragraph, the financial statements of the aggregate discretely presented component units present fairly, in all material respects, the financial position of the aggregate discretely presented component units for the *City of Saginaw, Michigan* as of June 30, 2006, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the *City of Saginaw, Michigan*, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable thereof, and the respective budgetary comparison for the general fund and major special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also separately issued our report dated December 15, 2006 on our consideration of the *City of Saginaw, Michigan's* internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis listed in the table of contents on pages 3 through 10 and the Pension Analysis of Funding Progress on page 56 are not required parts of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the *City of Saginaw, Michigan's* basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, reading "Lehmann Johnson".

CITY OF SAGINAW, MICHIGAN MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements

The City of Saginaw's annual report follows a prescribed format in accordance with the requirements of all Governmental Accounting Standards Board Statements, as well as all Generally Accepted Accounting Principles.

Within the financial section there are four major parts: (1) Management's discussion and analysis, (2) the basic financial statements, (3) required supplementary information, and (4) other supplemental information that presents combining statements for non-major governmental, enterprise, internal service, and fiduciary funds. The basic financial statements include two kinds of statements that present different views of the City. The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial condition. The remaining statements are fund financial statements that focus on individual parts of the City's government, reporting its operations in more detail than the government-wide statements.

Government-wide Statements

The government-wide statements report information about the City as a whole, using accounting methods similar to those used by private section companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide financial statements (Statement of Net Assets and Statement of Activities) of the City are divided into two categories:

- **Governmental activities:** Most of the City's basic services are included here, such as the police, fire, public works, and parks departments, and general administration. Property taxes, income taxes, intergovernmental revenue, charges for services, grants and contributions, and investment earnings provide most of the funding.
- **Business-type activities:** The City charges fees to customers to help it cover the cost of certain services it provides. The City's water and sewer system, and parking system, are treated as business-type activities, with an enterprise function.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

Some funds are required by State law and some by bond covenants. The City Council establishes other funds to control and manage money for particular purposes.

The City utilizes three kinds of funds:

- **Governmental funds:** Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets can readily be converted to cash flow in and out, and the balances left at year end that are available for spending. The governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.
- **Proprietary funds:** Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like government-wide statements, provide both long-term and short-term financial information.
- **Fiduciary funds:** The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. These activities are excluded from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

Financial Overview

Net assets: The City of Saginaw has combined net assets of \$139,467,143. Business type activities comprise \$98,183,737 and governmental activities make up \$41,283,406 of the total net assets. The table below shows, in a condensed format, a comparison of the net assets as for the current date to the prior year.

| | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | | <u>Total</u> | |
|-------------------------------------------------|--------------------------------|---------------|---------------------------------|---------------|----------------|----------------|
| | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> |
| Current and other assets | \$ 21,556,050 | \$ 23,172,177 | \$ 32,868,786 | \$ 28,233,089 | \$ 54,424,836 | \$ 51,405,266 |
| Capital assets | 34,177,523 | 34,933,368 | 121,965,009 | 123,813,494 | 156,142,532 | 158,746,862 |
| Total assets | 55,733,573 | 58,105,545 | 154,833,795 | 152,046,583 | 210,567,368 | 210,152,128 |
| Current liabilities | 4,250,865 | 3,940,395 | 3,324,372 | 2,056,992 | 7,575,237 | 5,997,387 |
| Long-term liabilities | 10,199,302 | 11,671,228 | 53,325,686 | 56,823,825 | 63,524,988 | 68,495,053 |
| Total liabilities | 14,450,167 | 15,611,623 | 56,650,058 | 58,880,817 | 71,100,225 | 74,492,440 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 32,184,625 | 32,145,099 | 69,779,191 | 62,651,489 | 101,963,816 | 100,208,352 |
| Restricted | 3,141,661 | 3,519,523 | 7,550,734 | 8,991,506 | 10,692,395 | 12,511,029 |
| Unrestricted | 5,957,120 | 6,829,300 | 20,853,812 | 21,522,771 | 26,810,932 | 22,940,307 |
| Total net assets | \$ 41,283,406 | \$ 42,493,922 | \$ 98,183,737 | \$ 93,165,766 | \$ 139,467,143 | \$ 135,659,688 |

Net assets increased by \$4,277,274 during the year. The primary cause of the change is due to an increase related to the reporting of assets as prescribed by GASB 34.

Change in net assets: Information in the following table is extracted from the Statement of Activities, and shows the revenue and expense components of changes in net assets for the year ended June 30, 2006.

| | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | | <u>Total</u> | |
|-------------------------------------------------------------|--------------------------------|---------------|---------------------------------|---------------|----------------|----------------|
| | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 5,870,294 | \$ 5,921,226 | \$ 31,003,865 | \$ 31,172,644 | \$ 36,874,159 | \$ 37,093,870 |
| Operating grants and contributions | 10,007,712 | 8,436,474 | - | - | 10,007,712 | 8,436,474 |
| Capital grants and contributions | 407,721 | 140,298 | 240,382 | - | 648,103 | 140,298 |
| General revenues: | | | | | | |
| Property taxes | 6,375,531 | 6,288,708 | - | - | 6,375,531 | 6,288,708 |
| Income taxes | 13,549,513 | 13,228,923 | - | - | 13,549,513 | 13,228,923 |
| Grants and contribution not restricted to specific programs | 10,167,880 | 10,497,715 | - | - | 10,167,880 | 10,497,715 |
| Unrestricted investment earnings | 641,208 | 420,938 | 222,223 | 145,429 | 863,431 | 566,367 |
| Miscellaneous | 145,890 | 123,711 | 4,080 | - | 149,970 | 123,711 |
| Insurance proceeds | - | - | - | - | - | - |
| Increase in investment in Saginaw-Midland Water Supply Corp | - | - | - | 327,504 | - | 327,504 |
| Gain (loss) on disposal of capital assets | - | 99,344 | - | - | - | 99,344 |
| Total revenues | 47,165,749 | 45,157,337 | 31,470,550 | 31,645,577 | 78,636,299 | 76,802,914 |
| Expenses: | | | | | | |
| General government | 6,231,068 | 6,007,395 | - | - | 6,231,068 | 6,007,395 |
| Public safety | 23,558,098 | 23,304,106 | - | - | 23,558,098 | 23,304,106 |
| Highway/streets | 6,044,300 | 3,443,680 | - | - | 6,044,300 | 3,443,680 |
| Garbage, rubbish and recycling | 3,188,863 | 3,130,100 | - | - | 3,188,863 | 3,130,100 |
| Other general services | 2,944,612 | 3,077,279 | - | - | 2,944,612 | 3,077,279 |
| Community services | 1,135,891 | 1,166,686 | - | - | 1,135,891 | 1,166,686 |
| Contributions to other organizations | 5,000 | 11,150 | - | - | 5,000 | 11,150 |
| Demolitions | 733,634 | 540,248 | - | - | 733,634 | 540,248 |
| Economic development | 3,205,416 | 2,342,056 | - | - | 3,205,416 | 2,342,256 |
| Interest on long-term debt | 107,231 | 150,089 | - | - | 107,231 | 150,089 |
| Water | - | - | 10,532,120 | 10,426,250 | 10,532,120 | 10,426,250 |
| Sewer | - | - | 16,138,058 | 15,454,138 | 16,138,058 | 15,454,138 |
| Parking | - | - | 392,963 | 524,186 | 392,963 | 524,186 |
| Wave pool | - | - | 141,771 | 141,807 | 141,771 | 141,807 |
| Total expenses | 47,154,113 | 43,172,789 | 27,204,912 | 26,546,381 | 74,359,025 | 69,719,170 |
| Transfers | (21,034) | 31,262 | 21,034 | (31,262) | - | - |
| Increase (decrease) in net assets | (9,398) | 2,015,810 | 4,286,672 | 5,067,934 | 4,277,274 | 7,083,744 |
| Net assets, beginning | 41,292,804 | 40,478,112 | 93,897,065 | 88,097,832 | 135,189,869 | 128,575,944 |
| Total net assets | \$ 41,283,406 | \$ 42,493,922 | \$ 98,183,737 | \$ 93,165,766 | \$ 139,467,143 | \$ 135,659,688 |

Governmental Activities

General revenues for governmental activities totaled approximately \$31 million for the year ended June 30, 2006. A total of approximately \$6.4 million was in the form of property tax collections and related revenues that reflected a decrease in the tax rate for general operations from 5.5412 (\$5.5412 per \$1,000 of taxable value) to 5.4185 mills, and a 2.26% increase in the overall taxable value of property located within the City. Income tax generated approximately \$13.5 million from residents and non-residents who live or work in the City respectively. Intergovernmental revenues, in the form of state shared revenues, continue to be of concern. While they provided \$10.2 million, it is uncertain what will happen in the next several years, given the State of Michigan's financial difficulties.

Expenses for governmental activities totaled approximately \$47 million for the year ended June 30, 2006, which reflects an increase of approximately \$4 million. Expenses increased primarily due to increased activity in highways/streets, demolitions and economic development. The increase in highways/streets was caused by an increase in the amount of expenditures related to non-capitalized assets, such as infrastructure. The increase in demolitions and economic development was caused by increased activity in the Community Development fund.

Business-type Activities

Business-type activities operated by the City include the water and sewer system, and parking system. Program revenues from business-type activities were approximately \$31.0 million. Significant items include sewer service - \$17.8 million, water supply - \$12.6 million, parking - \$554 thousand.

Raw water from Lake Huron is provided via the Saginaw-Midland Municipal Water Supply Corporation, a joint venture between the City of Saginaw and the City of Midland. The SMMWSC pipeline supplies the City's water treatment plant as well as Midland's large industrial customers. The City owns and operates its own sanitary sewer collection and treatment system. In accordance with regulations promulgated by the Michigan Department of Environmental Quality, the sewer treatment system is operated by the City of Saginaw. The City also owns and operates several parking surface lots and a parking ramp.

Current Economic Events

As of the date of this analysis, several issues are worth noting in evaluating the financial condition of the City of Saginaw.

Property Tax Cap: In 1979, the citizens of Saginaw froze the maximum dollar levy to that of the previous year, which stands to date at \$3,828,788. Therefore the corporate millage rate must be adjusted annually with each change in taxable value to ensure adherence to the imposed dollar levy cap or 7.5 mills, whichever is lower.

Renaissance Zones: Development in Renaissance Zones has increased and allows for residents of the zone to be assessed immaterial property taxes, and no local or state income taxes. Businesses located in the Renaissance Zone are exempt from local and state corporate taxes. Recent medical activity in zones has resulted in job movement from inside and outside of the City into the zones. Property ownership and tax filing status may impact income taxes because some of the higher paying jobs may be exempt from income taxes.

Economic growth: The City continues to experience moderate economic growth. The Saginaw Housing Commission and Habitat for Humanity continue to provide scattered public housing and building blitz within the City of Saginaw.

Future State of Michigan Public Act 425 Agreements or corresponding service agreements are being negotiated with other communities as they increase business and residential development. These agreements will provide a direct revenue flow to the General Fund. The most promising 425 Agreement revenue stream is local income tax.

Local income tax: The City of Saginaw receives 40.8% of its General Fund revenue from local income tax. Economic conditions continue to have a negative impact on this revenue source. For the 2006-2007 budget, the revenue from income taxes is expected to remain steady.

State shared revenues: The City of Saginaw receives 30.5% of its General Fund revenue from state revenue sharing. The State of Michigan is experiencing significant budget problems, which it is attempting to partially remedy by cutting payments to shared sales tax revenues to local units of government. The City's 2006-2007 budget showed an overall increase of 1%, amounting to approximately \$77,170. It is our belief that any additional and continued cuts in state shared revenue will severely impact the City's ability to provide services.

Financial Analysis of City Funds and Budgets

The General Fund ended 2005-2006 with a fund balance of \$5.2 million, of which the following amounts were unreserved but designated:

- \$0.2 million for budget stabilization
- \$0.2 million for the self insurance fund deficit
- \$0.2 million for parking funds deficit
- \$0.2 million for workers compensation fund deficit

Of the remaining \$4,375,909 of fund balance, \$14,644 is reserved for encumbrances, \$43,000 is reserved long-term advances and \$724,111 is designated for use in the 2006-2007 fiscal year. The unreserved, undesignated fund balance is \$3,594,154 as of June 30, 2006. The budget stabilization reserve and the unreserved and undesignated amount (\$3,808,646) represented 11.55% of the June 30, 2006 General Fund expenditures and other financing uses. That same number represents 11.32% of the fiscal year 2006-2007 budget (prior to 2006-2007 budget amendments).

Several factors affected General Fund operating results:

- Local income tax was up by \$0.32 million due to increased collection efforts
- State shared revenue was down by \$0.35 million due to the State reductions
- Investment income was up by \$0.23 million due to higher yields

The General Fund budget is amended throughout the year, and resulted in \$205,806 in revenues over expenditures. Revenues were \$86,142 over budget while expenditures were \$93,375 over budget. All of the City's seven (7) collective bargaining units did not have ratified agreements in place as of the end of the fiscal year ending June 30, 2006.

The Local Streets fund continues to struggle with a minimal fund balance for the third time in over 15 years, approximately \$16,000.

The Rubbish Fund has a June 30, 2006 fund balance of \$549,950.

Paid Time Off (PTO) Liability Fund had a fund balance of \$0.3 million and \$0.7 million as of June 30, 2006 and June 30, 2005, respectively. The projected unfunded liability is \$5 and \$5 million as of June 30, 2006 and June 30, 2005, respectively. The PTO liability has changed to 5% funded from 20% funded.

The City's June 30, 2001 \$115 million in unfunded health care liability impacts all funds. Prior to the 2003-2004 fiscal year, General Fund was the single contributing fund to this liability. After receiving the June 30, 2001 actuary report, other funds are budgeted to contribute. A plan to fund 50% of the \$115 million liability is being developed and requires a \$500,000, annual contribution to the Public Employee Healthcare fund.

Capital Projects

During the year ended June 30, 2006, the City performed the following significant street projects.

| Project Information | | |
|-----------------------------------------|--------|-------------------------------------------------------------------------------------------------------------------------------|
| Project Name | | Description |
| | | |
| 2005-2006 CDBG Sidewalk Ramps | | Construction of ADA Ramps at intersections to be compliant with the Americans with Disabilities Act in Block Grant Areas Only |
| 2005-2006 CDBG Resurfacing | | Used as match money to Reconstruct Sheridan Ave. (\$126,050) total project cost \$615,484. |
| C-1564 WWTP Headworks Project – Phase A | | Upgrade to the Wastewater Treatment Plant, multi-year and multi-million dollar projects |
| E. Genesee Reconstruction | | Reconstructed from Webber to Hartsuff and replaced Water and Sewer mains |
| | ST0660 | \$1,990,263 (\$572,503 paid by MDEC) |
| | 06H001 | \$64,304 |
| | | |
| Traffic Signals | | \$81,000 (city share \$16,200) for 4 intersections |
| | | |
| Traffic Signals | | Mackinaw and Weiss – split cost with Saginaw County |

Long Term Debt

At the end of the current fiscal year, the City of Saginaw had total bonded debt outstanding of \$52.7 million in principal and \$6.8 million in interest. Of this amount, \$1.6 million in principal comprises debt backed by the full faith and credit of the government. The remainder of the City of Saginaw's debt represents bonds secured solely by specified revenue sources (e.g., revenue bonds).

City of Saginaw's Outstanding Debt General Obligation and Revenue Bonds

| | Governmental | | Business-type | | Total | |
|--------------------------|-------------------|-----------------|-------------------|-----------------|------------------|-----------------|
| | <u>Activities</u> | | <u>Activities</u> | | | |
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| General obligation bonds | \$547,482 | \$36,373 | \$ 1,075,000 | \$ 564,519 | \$ 1,622,482 | \$ 600,892 |
| Revenue Bonds | - | - | 51,055,766 | 6,202,854 | 51,055,766 | 6,202,854 |
| Total | \$547,482 | \$36,373 | \$52,130,766 | \$6,767,373 | \$52,678,248 | \$ 6,803,746 |

Contacting the City of Saginaw

This report is intended to aid our residents and other interested parties in understanding the City of Saginaw's financial condition. Questions and comments should be directed to the Fiscal Services Department at the Saginaw City Hall, 1315 South Washington Avenue, Saginaw, Michigan 48601. Fiscal Services staff can be reached at 989-759-1443 or at saginaw-mi@domino.com.

**BASIC
FINANCIAL
STATEMENTS**

CITY OF SAGINAW
STATEMENT OF NET ASSETS
June 30, 2006

| | Primary Government | | | Component Units |
|-------------------------------------------------|----------------------------|-----------------------------|----------------|--------------------|
| | Governmental Activities | Business-type Activities | Total | |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 4,636,533 | \$ 12,005,322 | \$ 16,641,855 | \$ 3,235,577 |
| Investments | 2,815,150 | 3,798,770 | 6,613,920 | - |
| Receivables | 10,792,056 | 5,741,537 | 16,533,593 | 193,723 |
| Internal balances | (121,431) | 121,431 | - | - |
| Prepaid items and other assets | 36,319 | - | 36,319 | - |
| Inventory | 544,804 | 544,714 | 1,089,518 | - |
| Other assets | - | 8,952,873 | 8,952,873 | - |
| Restricted cash and cash equivalents | 520,013 | 1,704,139 | 2,224,152 | - |
| Restricted investments | 2,332,606 | - | 2,332,606 | - |
| Nondepreciable capital assets | 14,834,644 | 4,391,082 | 19,225,726 | - |
| Depreciable capital assets, net | 19,342,879 | 117,573,927 | 136,916,806 | - |
| TOTAL ASSETS | 55,733,573 | 154,833,795 | 210,567,368 | 3,429,300 |
| LIABILITIES | | | | |
| Accounts payable and accrued expenses | 3,265,775 | 3,324,372 | 6,590,147 | 175 |
| Unearned revenue | 985,090 | - | 985,090 | - |
| Noncurrent liabilities: | | | | |
| Due within one year | 2,320,785 | 6,712,686 | 9,033,471 | - |
| Due in more than one year | 7,878,517 | 46,613,000 | 54,491,517 | - |
| TOTAL LIABILITIES | 14,450,167 | 56,650,058 | 71,100,225 | 175 |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 32,080,041 | 69,779,191 | 101,859,232 | - |
| Restricted for: | | | | |
| Debt service | - | 1,658,963 | 1,658,963 | - |
| Capital projects | 101,492 | 2,187,726 | 2,289,218 | - |
| Endowments: | | | | |
| Expendable | 189,457 | - | 189,457 | - |
| Nonexpendable | 2,332,606 | - | 2,332,606 | - |
| Other purposes | 518,106 | 3,704,045 | 4,222,151 | 3,429,125 |
| Unrestricted | 6,061,704 | 20,853,812 | 26,915,516 | - |
| TOTAL NET ASSETS | \$ 41,283,406 | \$ 98,183,737 | \$ 139,467,143 | \$ 3,429,125 |

The accompanying notes are an integral part of these financial statements.

CITY OF SAGINAW
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

| Functions / Programs | Expenses | Program Revenues | | | Net (Expense) Revenue |
|--------------------------------------|----------------------|-------------------------|------------------------------------------|----------------------------------------|--------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Primary government | | | | | |
| Governmental activities: | | | | | |
| General government: | | | | | |
| Other general government | \$ 4,030,596 | \$ 832,456 | \$ 10,000 | \$ - | \$ (3,188,140) |
| Administration: | | | | | |
| Fiscal services | 2,200,472 | 2,191,907 | - | - | (8,565) |
| Public safety: | | | | | |
| Fire protection | 10,012,274 | 10,894 | - | - | (10,001,380) |
| Police protection | 13,033,292 | (237,556) | 97,650 | - | (13,173,198) |
| Police grants | 512,472 | 6,475 | 171,527 | - | (334,470) |
| Other public safety | 60 | 20,284 | 75,593 | - | 95,817 |
| General services: | | | | | |
| Highways and streets | 6,044,300 | 8,541 | 5,340,217 | 332,121 | (363,421) |
| Garbage, rubbish and recycling | 3,188,863 | 1,421,698 | - | - | (1,767,165) |
| Other general services | 2,944,612 | 601,970 | - | - | (2,342,642) |
| Community services: | | | | | |
| Demolitions | 733,634 | 125,116 | - | - | (608,518) |
| Contributions to other organizations | 5,000 | - | - | - | (5,000) |
| Other community services | 1,135,891 | 701,121 | 105,400 | - | (329,370) |
| Economic development | 3,205,416 | 187,388 | 4,207,325 | 75,600 | 1,264,897 |
| Interest on long-term debt | 107,231 | - | - | - | (107,231) |
| Total governmental activities | <u>47,154,113</u> | <u>5,870,294</u> | <u>10,007,712</u> | <u>407,721</u> | <u>(30,868,386)</u> |
| Business-type activities: | | | | | |
| Sewer | 16,138,058 | 17,825,740 | - | 41,228 | 1,728,910 |
| Water | 10,532,120 | 12,624,376 | - | 199,154 | 2,291,410 |
| Parking | 392,963 | 553,749 | - | - | 160,786 |
| Wave Pool | 141,771 | - | - | - | (141,771) |
| Total business-type activities | <u>27,204,912</u> | <u>31,003,865</u> | <u>-</u> | <u>240,382</u> | <u>4,039,335</u> |
| Total primary government | <u>\$ 74,359,025</u> | <u>\$ 36,874,159</u> | <u>\$ 10,007,712</u> | <u>\$ 648,103</u> | <u>\$ (26,829,051)</u> |
| Component units | <u>\$ 582,003</u> | <u>\$ 41,098</u> | <u>\$ 68,061</u> | <u>\$ -</u> | <u>\$ (472,844)</u> |

continued...

| | Primary Government | | | Component Units |
|-----------------------------------------------------------------|-----------------------------|-----------------------------|------------------------------|----------------------------|
| | Governmental Activities | Business-type Activities | Total | |
| Changes in net assets | | | | |
| Net (expense) revenue | <u>\$ (30,868,386)</u> | <u>\$ 4,039,335</u> | <u>\$ (26,829,051)</u> | <u>\$ (472,844)</u> |
| General revenues: | | | | |
| Property taxes | 6,375,531 | - | 6,375,531 | 322,325 |
| Income taxes | 13,549,513 | - | 13,549,513 | - |
| Grants and contributions not restricted to specific programs | 10,167,880 | - | 10,167,880 | - |
| Unrestricted investment earnings | 641,208 | 222,223 | 863,431 | 37,581 |
| Miscellaneous | 145,890 | 4,080 | 149,970 | - |
| Transfers | <u>(21,034)</u> | <u>21,034</u> | <u>-</u> | <u>-</u> |
| Total general revenues and transfers | <u>30,858,988</u> | <u>247,337</u> | <u>31,106,325</u> | <u>359,906</u> |
| Change in net assets | (9,398) | 4,286,672 | 4,277,274 | (112,938) |
| Net assets, beginning of year, as restated | <u>41,292,804</u> | <u>93,897,065</u> | <u>135,189,869</u> | <u>3,542,063</u> |
| NET ASSETS, END OF YEAR | <u><u>\$ 41,283,406</u></u> | <u><u>\$ 98,183,737</u></u> | <u><u>\$ 139,467,143</u></u> | <u><u>\$ 3,429,125</u></u> |

The accompanying notes are an integral part of these financial statements.

CITY OF SAGINAW, MICHIGAN
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2006

| | General | Community Development | Nonmajor Governmental Funds | Totals Governmental Funds |
|----------------------------------------|----------------------------|----------------------------|-----------------------------------|---------------------------------|
| <u>ASSETS</u> | | | | |
| Cash and cash equivalents - Note C | \$ - | \$ 157,415 | \$ 1,871,243 | \$ 2,028,658 |
| Income taxes receivable | 1,342,882 | - | - | 1,342,882 |
| Accounts receivable, net of allowances | 1,269,011 | 102,923 | 18,297 | 1,390,231 |
| Accrued interest receivable | - | - | 953 | 953 |
| Due from other governmental units | 3,404,742 | 1,210,189 | 970,965 | 5,585,896 |
| Inventory | - | - | 389,944 | 389,944 |
| Property taxes receivable - Note P | 138,029 | - | 68,343 | 206,372 |
| Assessments receivable | 80,693 | - | 483,257 | 563,950 |
| Investments - Note C | 1,844,918 | - | - | 1,844,918 |
| Due from other funds - Note N | - | - | 9,824 | 9,824 |
| Notes and contracts receivable | | | | |
| Housing and other | - | 1,677,354 | - | 1,677,354 |
| Restricted assets | | | | |
| Cash and cash equivalents - Note C | 200,000 | 84,031 | 235,982 | 520,013 |
| Accrued interest receivable | 14,492 | - | - | 14,492 |
| Investments - Note C | - | - | 2,332,606 | 2,332,606 |
| Advance to other funds - Note N | <u>43,000</u> | <u>-</u> | <u>-</u> | <u>43,000</u> |
| TOTAL ASSETS | <u>\$ 8,337,767</u> | <u>\$ 3,231,912</u> | <u>\$ 6,381,414</u> | <u>\$ 17,951,093</u> |

The accompanying notes are an integral part of these financial statements.

CITY OF SAGINAW, MICHIGAN
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2006

| | General | Community Development | Nonmajor Governmental Funds | Totals Governmental Funds |
|------------------------------------------------|--------------|--------------------------|-----------------------------------|---------------------------------|
| <u>LIABILITIES AND FUND EQUITIES</u> | | | | |
| <u>Liabilities</u> | | | | |
| Accounts payable | \$ 411,463 | \$ 446,034 | \$ 624,496 | \$ 1,481,993 |
| Accrued wages payable | 533,981 | 19,839 | 81,985 | 635,805 |
| Due to other governmental units | 134,509 | 100,084 | 24,958 | 259,551 |
| Due to other funds - Note N | 172,306 | - | 186,390 | 358,696 |
| Deposits | 683,199 | - | - | 683,199 |
| Deferred revenue - Note D | 1,218,242 | 2,622,955 | 193,298 | 4,034,495 |
| Long-term advances due to other funds - Note N | - | 43,000 | - | 43,000 |
| Total Liabilities | 3,153,700 | 3,231,912 | 1,111,127 | 7,496,739 |
| <u>Fund Equities</u> | | | | |
| <u>Fund balances</u> | | | | |
| Reserved for: | | | | |
| Encumbrances | 14,644 | - | 57,156 | 71,800 |
| Inventory | - | - | 389,944 | 389,944 |
| Long-term advances to other funds | 43,000 | - | - | 43,000 |
| Trusts and endowments | - | - | 2,335,413 | 2,335,413 |
| Specific projects | - | - | 518,106 | 518,106 |
| Unreserved: | | | | |
| Designated for: | | | | |
| Self Insurance Fund | 176,362 | - | - | 176,362 |
| Workers' Compensation Fund | 206,059 | - | - | 206,059 |
| Parking Fund | 211,245 | - | - | 211,245 |
| Budget stabilization | 214,492 | - | - | 214,492 |
| Subsequent year's expenditures | 724,111 | - | 758,376 | 1,482,487 |
| Designated, reported in: | | | | |
| Capital projects | - | - | 101,492 | 101,492 |
| Undesignated, reported in: | | | | |
| General Fund | 3,594,154 | - | - | 3,594,154 |
| Special Revenue Funds | - | - | 923,150 | 923,150 |
| Permanent Fund | - | - | 186,650 | 186,650 |
| Total Fund Balances | 5,184,067 | - | 5,270,287 | 10,454,354 |
| TOTAL LIABILITIES AND FUND EQUITIES | \$ 8,337,767 | \$ 3,231,912 | \$ 6,381,414 | \$ 17,951,093 |

The accompanying notes are an integral part of these financial statements.

CITY OF SAGINAW
RECONCILIATION OF FUND BALANCES ON THE
BALANCE SHEET FOR GOVERNMENTAL FUNDS TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES ON
THE STATEMENT OF NET ASSETS
June 30, 2006

| | |
|----------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|
| Fund balances - total governmental funds | \$ 10,454,354 |
| Amounts reported for <i>governmental activities</i> in the statement of net assets are different because: | |
| Long-term receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds. | 3,049,404 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | |
| Add - capital assets | 49,236,147 |
| Deduct - accumulated depreciation | (16,667,685) |
| Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds. | |
| Deduct - installment contracts and loans payable | (1,941,962) |
| Deduct - accumulated compensated absences | (5,322,992) |
| Deduct - accrued interest payable | (29,346) |
| Elimination of Internal Service Fund activities | <u>2,505,486</u> |
| Net assets of governmental activities | <u><u>\$ 41,283,406</u></u> |

The accompanying notes are an integral part of these financial statements.

CITY OF SAGINAW, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2006

| | General | Community Development | Nonmajor Governmental Funds | Totals Governmental Funds |
|--------------------------------------|--------------|--------------------------|-----------------------------------|---------------------------------|
| Revenues | | | | |
| General operating property taxes | \$ 3,787,630 | \$ - | \$ 2,036,825 | \$ 5,824,455 |
| Special assessments | 67,076 | - | - | 67,076 |
| City income tax | 13,549,513 | - | - | 13,549,513 |
| State shared revenues | 10,143,430 | - | 5,055,949 | 15,199,379 |
| Licenses, permits and fees | 1,538,447 | 25,459 | 1,508,282 | 3,072,188 |
| Fines, penalties and forfeitures | 294,540 | - | 39,494 | 334,034 |
| Grants, donations and contributions | 2,385,433 | 4,218,462 | 1,136,824 | 7,740,719 |
| Interest on loans and investments | 491,679 | 55,180 | 36,167 | 583,026 |
| Rents and privileges | 51,500 | - | - | 51,500 |
| Sale of materials and services | 933,534 | - | 61,307 | 994,841 |
| Loan repayments | - | 131,281 | - | 131,281 |
| Total Revenues | 33,242,782 | 4,430,382 | 9,874,848 | 47,548,012 |
| Expenditures | | | | |
| Current expenditures | | | | |
| General government | 3,596,652 | - | - | 3,596,652 |
| Administration | 2,194,405 | 807,606 | - | 3,002,011 |
| Public safety | 22,992,670 | - | 721,365 | 23,714,035 |
| Highways and streets | - | - | 6,158,243 | 6,158,243 |
| General services | 2,818,023 | - | 3,249,447 | 6,067,470 |
| Community services | 1,050,383 | - | 166,529 | 1,216,912 |
| Economic development | - | 1,975,259 | 282,483 | 2,257,742 |
| Capital outlay | - | 825,286 | - | 825,286 |
| Debt service | | | | |
| Principal | 305,118 | 475,000 | - | 780,118 |
| Interest | 11,718 | 78,080 | - | 89,798 |
| Total Expenditures | 32,968,969 | 4,161,231 | 10,578,067 | 47,708,267 |
| Revenues over (under) expenditures | 273,813 | 269,151 | (703,219) | (160,255) |
| Other financing sources (uses) | | | | |
| Transfers in | 405,186 | - | 1,406,315 | 1,811,501 |
| Transfers out | (473,193) | (269,151) | (672,482) | (1,414,826) |
| Total Other Financing Sources (Uses) | (68,007) | (269,151) | 733,833 | 396,675 |
| Net change in fund balances | 205,806 | - | 30,614 | 236,420 |
| Fund balances at beginning of year | 4,978,261 | - | 5,239,673 | 10,217,934 |
| FUND BALANCES AT END OF YEAR | \$ 5,184,067 | \$ - | \$ 5,270,287 | \$ 10,454,354 |

The accompanying notes are an integral part of these financial statements.

CITY OF SAGINAW
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGE IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

| | |
|--------------------------------------------------------|------------|
| Net change in fund balances - total governmental funds | \$ 236,420 |
|--------------------------------------------------------|------------|

Amounts reported for *governmental activities* in the statement of activities are different because:

| | |
|------------------------------------------------------------------------------------------------------------------------------------|-----------|
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | (515,515) |
|------------------------------------------------------------------------------------------------------------------------------------|-----------|

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

| | |
|-------------------------------------------|-------------|
| Add - capital additions | 678,321 |
| Deduct - net value of capital assets sold | (4,299) |
| Deduct - depreciation expense | (1,351,955) |

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

| | |
|---------------------------------------------------|---------|
| Add - principal payments on long-term liabilities | 780,118 |
| Add - decrease in accrued compensated absences | 30,841 |
| Add - decrease in accrued interest payable | 13,429 |

| | |
|-------------------------------------------------|----------------|
| Elimination of Internal Service Fund activities | <u>123,242</u> |
|-------------------------------------------------|----------------|

| | |
|-------------------------------------------------|--------------------------|
| Change in net assets of governmental activities | <u><u>\$ (9,398)</u></u> |
|-------------------------------------------------|--------------------------|

The accompanying notes are an integral part of these financial statements.

CITY OF SAGINAW, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2006

| | Original Budget | Amended Budget | Actual | Variance Over (Under) |
|--------------------------------------|--------------------|-------------------|--------------|-----------------------------|
| Revenues | | | | |
| General operating property taxes | \$ 3,768,736 | \$ 3,768,736 | \$ 3,787,630 | \$ 18,894 |
| Special assessments | 140,000 | 140,000 | 67,076 | (72,924) |
| City income tax | 12,700,000 | 13,004,240 | 13,549,513 | 545,273 |
| State shared revenues | 10,317,572 | 10,317,572 | 10,143,430 | (174,142) |
| Licenses, permits and fees | 1,642,448 | 1,642,448 | 1,538,447 | (104,001) |
| Fines, penalties and forfeitures | 297,960 | 297,960 | 294,540 | (3,420) |
| Grants, donations and contributions | 2,216,683 | 2,219,943 | 2,385,433 | 165,490 |
| Interest on loans and investments | 291,126 | 291,126 | 491,679 | 200,553 |
| Rents and privileges | 82,000 | 82,000 | 51,500 | (30,500) |
| Sale of materials and services | 1,476,277 | 1,392,615 | 933,534 | (459,081) |
| Total Revenues | 32,932,802 | 33,156,640 | 33,242,782 | 86,142 |
| Expenditures | | | | |
| Current expenditures | | | | |
| General government | 3,912,775 | 3,851,619 | 3,596,652 | (254,967) |
| Administration | 2,037,960 | 2,227,803 | 2,194,405 | (33,398) |
| Public safety - Note G | 22,576,643 | 22,647,030 | 22,992,670 | 345,640 |
| General services | 2,648,165 | 2,803,539 | 2,818,023 | 14,484 |
| Community services | 1,178,652 | 1,028,767 | 1,050,383 | 21,616 |
| Debt Service | | | | |
| Principal - Note G | 305,118 | 305,118 | 305,118 | - |
| Interest - Note G | 11,718 | 11,718 | 11,718 | - |
| Total Expenditures | 32,671,031 | 32,875,594 | 32,968,969 | 93,375 |
| Revenues over (under) expenditures | 261,771 | 281,046 | 273,813 | (7,233) |
| Other financing sources (uses) | | | | |
| Transfers in | 406,250 | 406,250 | 405,186 | (1,064) |
| Transfers out | (601,521) | (618,732) | (473,193) | 145,539 |
| Total Other Financing Sources (Uses) | (195,271) | (212,482) | (68,007) | 144,475 |
| Net change in fund balances | \$ 66,500 | \$ 68,564 | 205,806 | \$ 137,242 |
| Fund balance at beginning of year | | | 4,978,261 | |
| FUND BALANCE AT END OF YEAR | | | \$ 5,184,067 | |

The accompanying notes are an integral part of these financial statements.

CITY OF SAGINAW, MICHIGAN
COMMUNITY DEVELOPMENT SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2006

| | Original Budget | Amended Budget | Actual | Variance Over (Under) |
|--------------------------------------|--------------------|---------------------|------------------|-----------------------------|
| Revenues | | | | |
| Fees | \$ 54,048 | \$ 54,048 | \$ 25,459 | \$ (28,589) |
| Grants and entitlements | 3,671,785 | 3,671,785 | 4,218,462 | 546,677 |
| Interest on deposits and investments | - | - | 419 | 419 |
| Interest on loans | 75,000 | 75,000 | 54,761 | (20,239) |
| Loan repayments | 365,000 | 365,000 | 131,281 | (233,719) |
| Total Revenues | <u>4,165,833</u> | <u>4,165,833</u> | <u>4,430,382</u> | <u>264,549</u> |
| Expenditures | | | | |
| Current expenditures | | | | |
| Administration | 1,029,868 | 1,029,868 | 807,606 | (222,262) |
| Program support services | 1,218,179 | 1,230,679 | 1,036,376 | (194,303) |
| Loan disbursements | 294,000 | 281,500 | 53,778 | (227,722) |
| Grant expenditures | 492,855 | 492,855 | 885,105 | 392,250 |
| Capital outlay | | | | |
| Public improvements | 288,076 | 498,076 | 825,286 | 327,210 |
| Debt service | | | | |
| Principal | 475,000 | 475,000 | 475,000 | - |
| Interest | 78,080 | 78,080 | 78,080 | - |
| Total Expenditures | <u>3,876,058</u> | <u>4,086,058</u> | <u>4,161,231</u> | <u>75,173</u> |
| Revenues over (under) expenditures | 289,775 | 79,775 | 269,151 | 189,376 |
| Other financing sources (uses) | | | | |
| Transfers out | <u>(369,775)</u> | <u>(289,775)</u> | <u>(269,151)</u> | <u>(20,624)</u> |
| Net change in fund balances | <u>\$ (80,000)</u> | <u>\$ (210,000)</u> | - | <u>\$ 210,000</u> |
| Fund balance at beginning of year | | | - | |
| FUND BALANCE AT END OF YEAR | | | <u>\$ -</u> | |

The accompanying notes are an integral part of these financial statements.

CITY OF SAGINAW, MICHIGAN
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2006

| | Water | Sewer | Nonmajor Enterprise Funds | Totals | Internal Service Funds |
|-----------------------------------------------------------|----------------------|-----------------------|---------------------------------|-----------------------|------------------------------|
| ASSETS | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | \$ 4,622,877 | \$ 7,292,957 | \$ 89,488 | \$ 12,005,322 | \$ 2,607,875 |
| Accounts receivable, net of allowances | 1,557,510 | 2,816,716 | 370,453 | 4,744,679 | 6,728 |
| Accrued interest receivable | 2,086 | - | - | 2,086 | 3,198 |
| Due from other governments | - | 937,758 | - | 937,758 | - |
| Inventories | 544,714 | - | - | 544,714 | 154,860 |
| Prepaid expenses | - | - | - | - | 36,319 |
| Investments | 2,822,610 | 975,060 | 1,100 | 3,798,770 | 970,232 |
| Assessments receivable | 3,694 | 53,320 | - | 57,014 | - |
| Due from other funds | - | 232,191 | - | 232,191 | 1,092,298 |
| Restricted current assets | | | | | |
| Cash and cash equivalents | 1,195,305 | - | - | 1,195,305 | - |
| Cash - bond proceeds | 508,834 | - | - | 508,834 | - |
| Total Current Assets | 11,257,630 | 12,308,002 | 461,041 | 24,026,673 | 4,871,510 |
| Noncurrent Assets | | | | | |
| Investment in Saginaw-Midland Water Supply Corporation | 8,935,038 | - | - | 8,935,038 | - |
| Unamortized bond discount | 17,835 | - | - | 17,835 | - |
| Net Noncurrent Assets | 8,952,873 | - | - | 8,952,873 | - |
| Capital assets | | | | | |
| Land | 427,261 | 982,374 | 201,203 | 1,610,838 | - |
| Buildings and improvements | 63,288,977 | 59,353,758 | 11,669,459 | 134,312,194 | 189,146 |
| Combined sewer overflow facilities | - | 103,188,901 | - | 103,188,901 | - |
| Plant and office equipment | 3,341,603 | 3,823,276 | 654,509 | 7,819,388 | 673,830 |
| Vehicular and radio equipment | - | - | - | - | 7,226,068 |
| Construction in progress | 137,062 | 2,643,182 | - | 2,780,244 | - |
| Less allowances for depreciation | (36,344,174) | (80,172,136) | (11,230,246) | (127,746,556) | (6,479,983) |
| Net Capital Assets | 30,850,729 | 89,819,355 | 1,294,925 | 121,965,009 | 1,609,061 |
| TOTAL ASSETS | \$ 51,061,232 | \$ 102,127,357 | \$ 1,755,966 | \$ 154,944,555 | \$ 6,480,571 |

The accompanying notes are an integral part of these financial statements.

CITY OF SAGINAW, MICHIGAN
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2006

| | Water | Sewer | Nonmajor Enterprise Funds | Totals | Internal Service Funds |
|--------------------------------------------------------------|----------------------|-----------------------|---------------------------------|-----------------------|------------------------------|
| LIABILITIES AND NET ASSETS | | | | | |
| Current liabilities payable | | | | | |
| from current assets | | | | | |
| Accounts payable | \$ 316,925 | \$ 191,949 | \$ 3,572 | \$ 512,446 | \$ 137,689 |
| Accrued wages payable | 81,997 | 117,141 | 2,488 | 201,626 | 37,896 |
| Due to other governmental units | 8,041 | 20,673 | - | 28,714 | 295 |
| Due to other funds | - | - | 561,463 | 561,463 | 414,154 |
| Current portion of accrued sick and vacation/PTO payable | 225,210 | 313,746 | - | 538,956 | - |
| Current portion of long-term debt | - | 170,000 | - | 170,000 | 120,935 |
| Total Current Liabilities | | | | | |
| Payable From Current Assets | 632,173 | 813,509 | 567,523 | 2,013,205 | 710,969 |
| Payable from restricted assets | | | | | |
| Accounts payable | 185,515 | 1,338,385 | - | 1,523,900 | - |
| Customer deposits | 792,465 | - | - | 792,465 | - |
| Accrued interest | - | 265,221 | - | 265,221 | - |
| Current portion of long-term debt | 1,515,000 | 4,488,730 | - | 6,003,730 | - |
| Total Current Liabilities | | | | | |
| Payable From Restricted Assets | 2,492,980 | 6,092,336 | - | 8,585,316 | - |
| Total Current Liabilities | 3,125,153 | 6,905,845 | 567,523 | 10,598,521 | 710,969 |
| Long-term liabilities | | | | | |
| Workers' comp claims payable | - | - | - | - | 1,873,087 |
| Insurance claims payable | - | - | - | - | 522,090 |
| Accrued sick and vacation/PTO payable | 349,932 | 236,805 | 14,175 | 600,912 | 163,651 |
| Long-term debt, exclusive of current portion | | | | | |
| Revenue bonds | 1,220,052 | - | - | 1,220,052 | - |
| CSO construction projects | - | 41,493,242 | - | 41,493,242 | - |
| General obligation bonds and contracts | - | 3,298,794 | - | 3,298,794 | 254,585 |
| Total Long-term liabilities, exclusive of current portion | 1,569,984 | 45,028,841 | 14,175 | 46,613,000 | 2,813,413 |
| Total Liabilities | 4,695,137 | 51,934,686 | 581,698 | 57,211,521 | 3,524,382 |
| Net Assets | | | | | |
| Investment in capital assets, net of related debt | 28,115,677 | 40,368,589 | 1,294,925 | 69,779,191 | 1,453,541 |
| Restricted for: | | | | | |
| Sick and vacation | - | - | - | - | 255,757 |
| Bond and interest redemption | 1,658,963 | - | - | 1,658,963 | - |
| Operation and maintenance | 705,026 | - | - | 705,026 | - |
| Repairs and replacements | 1,678,892 | - | - | 1,678,892 | - |
| Surplus fund | 2,999,019 | - | - | 2,999,019 | - |
| Bond construction projects | 508,834 | - | - | 508,834 | - |
| Unrestricted (deficit) | 10,699,684 | 9,824,082 | (120,657) | 20,403,109 | 1,246,891 |
| Total Net Assets | 46,366,095 | 50,192,671 | 1,174,268 | 97,733,034 | 2,956,189 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 51,061,232 | \$ 102,127,357 | \$ 1,755,966 | \$ 154,944,555 | \$ 6,480,571 |

The accompanying notes are an integral part of these financial statements.

CITY OF SAGINAW
RECONCILIATION OF NET ASSETS ON THE
STATEMENT OF NET ASSETS FOR ENTERPRISE
FUNDS TO NET ASSETS OF BUSINESS-TYPE
ACTIVITIES ON THE STATEMENT OF NET ASSETS
June 30, 2006

| | | |
|-------------------------------------|----|------------|
| Net assets - total enterprise funds | \$ | 97,733,034 |
|-------------------------------------|----|------------|

Amounts reported for *business-type activities* in the statement of net assets are different because:

| | | |
|-------------------------------------------------|----|--------------------------|
| Elimination of Internal Service Fund activities | | <u>450,703</u> |
| Net assets of business-type activities | \$ | <u><u>98,183,737</u></u> |

The accompanying notes are an integral part of these financial statements.

CITY OF SAGINAW, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - PROPRIETARY FUNDS
For the Year Ended June 30, 2006

| | Water | Sewer | Nonmajor Enterprise Funds | Totals | Internal Service Funds |
|------------------------------------------------------------------------|---------------|---------------|---------------------------------|---------------|------------------------------|
| Operating revenues | | | | | |
| User charges | \$ 12,092,354 | \$ 17,292,653 | \$ 553,749 | \$ 29,938,756 | \$ 6,759,248 |
| Sale of materials and services | 415,686 | 49,667 | - | 465,353 | 18,931 |
| Penalties for delinquencies | 116,336 | 487,500 | - | 603,836 | - |
| Total Operating Revenues | 12,624,376 | 17,829,820 | 553,749 | 31,007,945 | 6,778,179 |
| Operating expenses | | | | | |
| Costs of goods sold | - | - | - | - | 67,021 |
| Salaries | - | - | 76,396 | 76,396 | 972,061 |
| Employee benefits | - | - | 122,844 | 122,844 | 876,165 |
| Contractual services | - | - | 14,171 | 14,171 | 1,021,026 |
| Internal user charges | - | - | 40,196 | 40,196 | 458,701 |
| Insurance | - | - | 17,800 | 17,800 | 1,284,954 |
| Utilities | - | - | 41,596 | 41,596 | 190,306 |
| Supplies and materials | - | - | 10,142 | 10,142 | 288,786 |
| Administration | 1,523,344 | 1,836,820 | - | 3,360,164 | - |
| Customer accounting | 280,352 | 224,420 | - | 504,772 | - |
| Meter maintenance and service | 367,413 | 338,987 | - | 706,400 | - |
| System maintenance and service | 1,624,782 | 1,892,216 | - | 3,516,998 | - |
| Treatment, disposal and pumping | 3,616,959 | 4,691,049 | - | 8,308,008 | - |
| Remote facilities | - | 989,012 | - | 989,012 | - |
| Raw water operations | 1,047,462 | - | - | 1,047,462 | - |
| Claims and judgements | - | - | - | - | 427,628 |
| Depreciation | 1,182,441 | 5,209,710 | 193,208 | 6,585,359 | 503,258 |
| Other | - | - | 25,511 | 25,511 | 28,837 |
| Total Operating Expenses | 9,642,753 | 15,182,214 | 541,864 | 25,366,831 | 6,118,743 |
| Operating Income (Loss) | 2,981,623 | 2,647,606 | 11,885 | 5,641,114 | 659,436 |
| Nonoperating revenues (expenses) | | | | | |
| Interest on investments | 211,621 | 29,641 | 3,280 | 244,542 | 129,996 |
| Interest expense on bonded indebtedness | (212,228) | (1,087,919) | - | (1,300,147) | (30,862) |
| Amortization on bond discount | (8,917) | - | - | (8,917) | - |
| Amortization of gain on bond refunding | 27,533 | - | - | 27,533 | - |
| Gain (loss) on sale of investments | (11,004) | (11,315) | - | (22,319) | - |
| Gain (loss) on disposal of capital assets | - | - | - | - | (224) |
| Grants and entitlements | 199,154 | 41,228 | - | 240,382 | 3,198 |
| Contractual obligations to Saginaw-Midland Water Supply Corporation | (1,277,641) | - | - | (1,277,641) | - |
| Increase in Investment in Saginaw-Midland Water Supply Corporation | 500,498 | - | - | 500,498 | - |
| Total Nonoperating Revenues (Expenses) | (570,984) | (1,028,365) | 3,280 | (1,596,069) | 102,108 |
| Net Income (Loss) Before Transfers | 2,410,639 | 1,619,241 | 15,165 | 4,045,045 | 761,544 |
| Transfers | | | | | |
| Transfers in | 21,034 | - | - | 21,034 | 39,241 |
| Transfers out | - | - | - | - | (456,950) |
| Net Transfers | 21,034 | - | - | 21,034 | (417,709) |
| Change in Net Assets | 2,431,673 | 1,619,241 | 15,165 | 4,066,079 | 343,835 |
| Net assets at beginning of year, as restated | 43,934,422 | 48,573,430 | 1,159,103 | 93,666,955 | 2,612,354 |
| NET ASSETS AT END OF YEAR | \$ 46,366,095 | \$ 50,192,671 | \$ 1,174,268 | \$ 97,733,034 | \$ 2,956,189 |

The accompanying notes are an integral part of these financial statements.

CITY OF SAGINAW
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN FUND NET ASSETS OF
ENTERPRISE FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

| | |
|--------------------------------------------------------|----------------------------|
| Net change in fund net assets - total enterprise funds | \$ 4,066,079 |
| Elimination of Internal Service Fund activities | <u>220,593</u> |
| Change in net assets of business-type activities | <u><u>\$ 4,286,672</u></u> |

The accompanying notes are an integral part of these financial statements.

CITY OF SAGINAW, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2006

| | Water | Sewer | Nonmajor Enterprise Funds | Totals | Internal Service |
|----------------------------------------------------------------------------------------------------|--------------|---------------|---------------------------------|---------------|---------------------|
| Cash flows from operating activities: | | | | | |
| Receipts from interfund services provided | \$ 495 | \$ 1,612,573 | \$ - | \$ 1,613,068 | \$ 8,197,154 |
| Receipts from customers | 12,528,447 | 20,543,797 | 398,859 | 33,471,103 | - |
| Payments to suppliers | (4,525,911) | (3,292,626) | (110,236) | (7,928,773) | (3,731,894) |
| Payments to employees | (3,718,299) | (5,543,732) | (195,042) | (9,457,073) | (1,936,578) |
| Payments for interfund services used | - | - | (87,106) | (87,106) | (462,942) |
| Net Cash Provided By (Used For) Operating Activities | 4,284,732 | 13,320,012 | 6,475 | 17,611,219 | 2,065,740 |
| Cash flows from noncapital financing activities: | | | | | |
| Grants and entitlements | - | - | - | - | 3,198 |
| Transfers in | 21,034 | - | - | 21,034 | 39,241 |
| Transfers out | - | - | - | - | (456,950) |
| Net Cash Provided By (Used For) Noncapital Financing Activities | 21,034 | - | - | 21,034 | (414,511) |
| Cash flows from capital and related financing activities: | | | | | |
| Purchases of capital assets | (1,540,990) | (3,188,784) | (7,100) | (4,736,874) | (434,002) |
| Proceeds from sale of equipment | - | - | - | - | 10,414 |
| Grants and entitlements | 199,154 | 41,228 | - | 240,382 | - |
| Bond / installment contract proceeds | - | 2,393,794 | - | 2,393,794 | 166,106 |
| Principal paid on long-term debt | (1,420,000) | (4,510,684) | - | (5,930,684) | (116,276) |
| Interest paid on long-term debt | (212,228) | (1,108,810) | - | (1,321,038) | (30,862) |
| Contractual obligations to Saginaw-Midland Supply Corporation | (1,277,641) | - | - | (1,277,641) | - |
| Net Cash (Used For) Capital and Related Financing Activities | (4,251,705) | (6,373,256) | (7,100) | (10,632,061) | (404,620) |
| Cash flows from investing activities: | | | | | |
| Purchase of investment securities | (102,190) | - | (8) | (102,198) | - |
| Proceeds from sale and maturities of investment securities | - | 20,758 | - | 20,758 | 22 |
| Interest on investments | 198,761 | 18,326 | 3,280 | 220,367 | 129,996 |
| Net Cash Provided By (Used For) Investing Activities | 96,571 | 39,084 | 3,272 | 138,927 | 130,018 |
| Increase (Decrease) in cash and cash equivalents | 150,632 | 6,985,840 | 2,647 | 7,139,119 | 1,376,627 |
| Cash and cash equivalents at beginning of year | 6,176,384 | 307,117 | 86,841 | 6,570,342 | 1,231,248 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | \$ 6,327,016 | \$ 7,292,957 | \$ 89,488 | \$ 13,709,461 | \$ 2,607,875 |
| Cash flows from operating activities: | | | | | |
| Operating income (loss) | \$ 2,981,623 | \$ 2,647,606 | \$ 11,885 | \$ 5,641,114 | \$ 659,436 |
| Adjustments to reconcile operating income to net cash provided by (used for) operating activities: | | | | | |
| Depreciation | 1,182,441 | 5,209,710 | 193,208 | 6,585,359 | 503,258 |
| Change in assets and liabilities: | | | | | |
| Accounts receivable | (93,114) | 2,910,780 | (154,890) | 2,662,776 | 24,945 |
| Due from other governmental units | - | (206,459) | - | (206,459) | 984,337 |
| Inventories | 1,754 | - | - | 1,754 | 58,813 |
| Prepaid expenses | - | - | - | - | - |
| Assessments receivable | (3,694) | 9,656 | - | 5,962 | 45,339 |
| Due from other funds | 495 | 1,612,573 | 49 | 1,613,117 | - |
| Accounts payable | 191,852 | 1,115,582 | (1,016) | 1,306,418 | 71,325 |
| Accrued wages payable | 8,140 | (3,786) | 192 | 4,546 | (457) |
| Due to other governments | (26,304) | 2,732 | - | (23,572) | (1,410) |
| Due to other funds | - | - | (46,959) | (46,959) | 405,452 |
| Unearned revenue | - | - | - | - | - |
| Customer deposits | 879 | - | - | 879 | - |
| Claims payable | - | - | - | - | (598,813) |
| Accrued sick and vacation/PTO payable | 40,660 | 21,618 | 4,006 | 66,284 | (86,485) |
| Net Cash Provided By (Used For) Operating Activities | \$ 4,284,732 | \$ 13,320,012 | \$ 6,475 | \$ 17,611,219 | \$ 2,065,740 |

The accompanying notes are an integral part of these financial statements.

CITY OF SAGINAW, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2006

| | Pension and Other Employee Benefits Trust Funds | Agency |
|-----------------------------------------------------------------|-------------------------------------------------------|--------------|
| <u>ASSETS</u> | | |
| Cash and cash equivalents | \$ - | \$ 1,803,649 |
| Accounts receivable | - | 195,862 |
| Prepaid Insurance | - | 211,449 |
| Taxes receivable for the account of other governmental units | - | 1,140,861 |
| Restricted assets | | |
| Cash and cash equivalents | 4,708,993 | - |
| Accrued interest receivable | 435,841 | - |
| Investments, at market value | | |
| Money market funds | 1,203,664 | - |
| U.S. Government agencies | 22,205,959 | - |
| Corporate and foreign bonds | 16,544,924 | - |
| Common equity securities | 47,673,778 | - |
| Equity mutual funds | 30,498,583 | - |
| Other | 2,081,628 | - |
| Total Assets | 125,353,370 | \$ 3,351,821 |
| <u>LIABILITIES</u> | | |
| Accounts payable | 29,581 | 863,661 |
| Accrued wages payable | 409,809 | - |
| Due to other governmental units | - | 1,739,616 |
| Claims payable | - | 742,349 |
| Other current liabilities | - | 6,195 |
| Total Liabilities | 439,390 | \$ 3,351,821 |
| Net Assets | | |
| Held in trust for pension benefits | \$ 124,913,980 | |

The accompanying notes are an integral part of these financial statements.

CITY OF SAGINAW, MICHIGAN
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION AND OTHER EMPLOYEE BENEFITS TRUST FUNDS
For the Year Ended June 30, 2006

Additions

Contributions:

| | |
|--------------|------------------|
| Employer | \$ 3,926,717 |
| Plan members | <u>1,078,002</u> |

| | |
|---------------------|------------------|
| Total contributions | <u>5,004,719</u> |
|---------------------|------------------|

Investment income (loss):

| | |
|-----------------------------------------------|------------------|
| Interest | 2,499,425 |
| Dividends | 3,210,183 |
| Mutual fund rebates | 30,570 |
| Net appreciation in fair value of investments | 3,343,913 |
| Investment expenses | <u>(436,088)</u> |

| | |
|-------------------------|------------------|
| Total investment income | <u>8,648,003</u> |
|-------------------------|------------------|

| | |
|-----------------|-------------------|
| Total Additions | <u>13,652,722</u> |
|-----------------|-------------------|

Deductions

| | |
|---------------------------------|----------------|
| Police pension benefits | 6,266,889 |
| Fire pension benefits | 5,154,310 |
| Administrative expenses | 368,629 |
| Refunds of member contributions | <u>113,820</u> |

| | |
|------------------|-------------------|
| Total Deductions | <u>11,903,648</u> |
|------------------|-------------------|

| | |
|---------------------------|-----------|
| Net increase for the year | 1,749,074 |
|---------------------------|-----------|

Net Assets Held in Trust for Pension Benefits

| | |
|-------------------|--------------------|
| Beginning of year | <u>123,164,906</u> |
|-------------------|--------------------|

| | |
|-------------|------------------------------|
| End of year | <u><u>\$ 124,913,980</u></u> |
|-------------|------------------------------|

The accompanying notes are an integral part of these financial statements.

**CITY OF SAGINAW
 COMPONENT UNITS
 STATEMENT OF NET ASSETS
 June 30, 2006**

| | <u>TIFA Activities</u> | <u>DDA Activities</u> | <u>LDFA Activities</u> | <u>Brownfield Activities</u> | <u>Total</u> |
|---------------------------|----------------------------|---------------------------|----------------------------|----------------------------------|----------------------------|
| <u>ASSETS</u> | | | | | |
| Cash and cash equivalents | \$ 31,275 | \$ 226,623 | \$ 2,972,210 | \$ 5,469 | \$ 3,235,577 |
| Receivables | <u>44</u> | <u>26,787</u> | <u>75,397</u> | <u>91,495</u> | <u>193,723</u> |
| TOTAL ASSETS | 31,319 | 253,410 | 3,047,607 | 96,964 | 3,429,300 |
| <u>LIABILITIES</u> | | | | | |
| Accounts payable | <u>-</u> | <u>175</u> | <u>-</u> | <u>-</u> | <u>175</u> |
| <u>NET ASSETS</u> | | | | | |
| Restricted for: | | | | | |
| Other purposes | <u>31,319</u> | <u>253,235</u> | <u>3,047,607</u> | <u>96,964</u> | <u>3,429,125</u> |
| TOTAL NET ASSETS | <u>\$ 31,319</u> | <u>\$ 253,235</u> | <u>\$ 3,047,607</u> | <u>\$ 96,964</u> | <u>\$ 3,429,125</u> |

The accompanying notes are an integral part of these financial statements.

CITY OF SAGINAW
COMPONENT UNITS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

| <u>Functions / Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | <u>Net (Expense) Revenue</u> |
|---------------------------------|-------------------|---------------------------------|---------------------------------------------------|----------------------------------|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | |
| TIFA Activities | \$ - | \$ - | \$ - | \$ - |
| DDA Activities | 63,266 | 41,098 | - | (22,168) |
| LDFA Activities | 450,676 | - | - | (450,676) |
| Brownfield Activities | 68,061 | - | 68,061 | - |
| Total component unit activities | <u>\$ 582,003</u> | <u>\$ 41,098</u> | <u>\$ 68,061</u> | <u>\$ (472,844)</u> |

| | <u>Component Units</u> | | | | <u>Total</u> |
|----------------------------------|----------------------------|---------------------------|----------------------------|----------------------------------|---------------------|
| | <u>TIFA Activities</u> | <u>DDA Activities</u> | <u>LDFA Activities</u> | <u>Brownfield Activities</u> | |
| Changes in net assets | | | | | |
| Net (expense) revenue | <u>\$ -</u> | <u>\$ (22,168)</u> | <u>\$ (450,676)</u> | <u>\$ -</u> | <u>\$ (472,844)</u> |
| General revenues: | | | | | |
| Property taxes | - | 46,673 | 247,780 | 27,872 | 322,325 |
| Unrestricted investment earnings | - | 3,921 | 33,660 | - | 37,581 |
| Total general revenues | - | 50,594 | 281,440 | 27,872 | 359,906 |
| Change in net assets | - | 28,426 | (169,236) | 27,872 | (112,938) |
| Net assets, beginning of year | 31,319 | 224,809 | 3,216,843 | 69,092 | 3,542,063 |
| NET ASSETS, END OF YEAR | <u>\$ 31,319</u> | <u>\$ 253,235</u> | <u>\$ 3,047,607</u> | <u>\$ 96,964</u> | <u>\$ 3,429,125</u> |

The accompanying notes are an integral part of these financial statements.

CITY OF SAGINAW, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A - REPORTING ENTITY

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Saginaw, Michigan (the primary government) and its component units. The component units discussed below are included in the City's reporting entity as they are entities for which the government is considered to be financially accountable.

Discrete Component Units

The component units columns in the government-wide financial statements include the financial data of the City's thirteen component units. These units are reported in a separate column to emphasize that they are legally separate from the City.

Tax Increment Finance Authority (TIFA) - Two component units - City Council established TIFA districts pursuant to Act 450 of the public Acts of 1980 for the Saginaw Division Tower and Morley Building projects. Property tax revenues received from the "captured" portion of these properties are restricted to pay project expenditures or set aside for future development within the districts depending on the development plan adopted for each project. The members of the governing board of the TIFA are appointed by City Council and development agreements of the TIFA districts are also approved by City Council. The City has the ability to significantly influence the operations of the TIFA. Complete financial statements of the TIFA can be obtained at the City of Saginaw, 1315 S. Washington Avenue, Saginaw, Michigan, 48601.

Downtown Development Authority (DDA) - Three component units - The members of the governing board of the DDA are appointed by City Council and development agreements of the DDA districts are also approved by City Council. Districts were established for the Commerce Center, Sils Island and the DDA. The City has the ability to significantly influence the operations of the DDA. Complete financial statements of the DDA can be obtained at the City of Saginaw, 1315 S. Washington Avenue, Saginaw, Michigan, 48601.

Saginaw Economic Development Corporation (SEDC) - One component unit – The members of the governing board of the SEDC are appointed by City Council and they review and approve loans to businesses located within the City limits. The City has the ability to significantly influence the operations of the SEDC. The financial statements of the SEDC were not available for inclusion in the June 30, 2006 financial statements.

Local Development Finance Authority (LDFA) - Six component units - When legislation expired for TIFA projects (above), City Council established LDFA districts pursuant to Act 281 of the Public Acts of 1986 for the following economic development projects: Thomson Saginaw Ball Screw Company, Sexton, Baker Perkins, Treasure Island, Saginaw Machine Systems and Saginaw Tool and Die. Property tax revenues received from the "captured" portion of these properties are restricted to pay project expenditures or set aside for future development within the districts depending on the development plan adopted for each project. The members of the governing board of the LDFA are appointed by City Council and development agreements of the LDFA districts are also approved by City Council. The City has the ability to significantly influence the operations of the LDFA. Complete financial statements of the LDFA can be obtained at the City of Saginaw, 1315 S. Washington Avenue, Saginaw, Michigan, 48601.

Brownfield Redevelopment Authority SRRF - One component unit - Property tax revenues received from the "captured" portion of these properties are restricted to pay site clean up expenditures and future development depending on the development plan adopted for each project. The members of the governing board of the Authority are appointed by City Council and they review and approve development plans for businesses relocating within designated areas of the City where property was once contaminated. The City has the ability to significantly influence the operations of the Brownfield Redevelopment Authority. Complete financial statements of the Authority can be obtained at the City of Saginaw, 1315 S. Washington Avenue, Saginaw, Michigan, 48601.

Joint Venture - Saginaw-Midland Municipal Water Supply Corporation

The City of Saginaw purchases raw water from the Saginaw-Midland Municipal Water Supply Corporation. This corporation brings water from Lake Huron, beginning at Whitestone Point, through a joint supply line, to Junction Station, at which point it is pumped through separate lines to Midland and Saginaw. The joint line is operated and maintained by the Corporation, which is an inter-governmental body composed of six members. Three members each are appointed by the Saginaw and Midland City Councils. The City of Saginaw owns 23/43rds of the Saginaw-Midland Municipal Water Supply Corporation and the City of Midland owns 20/43rds.

This joint venture is accounted for in the Water Fund using the equity method. The City reported an increase in equity of \$500,498 as nonoperating revenues. At June 30, 2006, total outstanding bonded debt of the Saginaw-Midland Municipal Water Supply Corporation was \$23,085,932. The City was obligated for \$12,348,289 of this total. During fiscal year 2006, the City paid the Corporation \$1,277,641 to finance its share of the contractual obligations. The City's equity of \$8,935,038 in the Saginaw-Midland Municipal Water Supply Corporation is recorded as an Investment within the Noncurrent Assets section on the statement of net assets of the Water Fund.

The financial information for the year ended June 30, 2006 for the Saginaw-Midland Municipal Water Supply Corporation follows:

| | | | |
|-------------------|---------------|-------------------|---------------|
| Total Assets | \$ 40,238,160 | Total Revenues | \$ 4,998,655 |
| Total Liabilities | 23,533,523 | Total Expenses | 4,062,940 |
| Net Assets | \$ 16,704,637 | Net Income | 935,715 |
| Net Assets: | | | |
| City of Saginaw | \$ 8,935,038 | Net Assets at | |
| City of Midland | 7,769,599 | Beginning of Year | 15,768,922 |
| Total Net Assets | \$ 16,704,637 | Total Net Assets | \$ 16,704,637 |

Complete financial statements can be obtained at the Saginaw-Midland Municipal Water Supply Corporation, 4678 Three Mile Road, Bay City, Michigan, 48706.

NOTE B - BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of the interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financial accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period and one year for reimbursement based grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, intergovernmental revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *community development fund* accounts for the grant revenues and related community development projects under the grants.

The government reports the following major proprietary funds:

The *water fund* accounts for the activities of the government's water distribution and treatment system.

The *sewer fund* accounts for the activities of the government's sewage disposal and treatment system.

Additionally, the City reports the following fund types:

Internal service funds account for fringe benefit and fleet management services provided to other departments or agencies of the government on a cost reimbursement basis.

The *pension and other employee benefit trust funds* account for the activities of the Policemen and Firemen Pension Fund and Public Employee Healthcare Fund, which accumulate resources for pension and health benefit payments for qualified employees.

Agency funds are use to account for assets held for other governments in an agency capacity, including tax collections.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer and water enterprise funds are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Significant Accounting Policies

Budgets and Budgetary Accounting - The City Charter requires the City Council, by resolution, to determine and adopt the budget and make the appropriations for the next fiscal year and to provide, by resolution, for a tax levy of the amount necessary to be raised by taxation at least 30 days prior to the first day of the upcoming fiscal year. Budgetary control is exercised at the department (appropriation center) level in the General Fund and at the fund level for all other budgeted funds. General Fund line item budget transfers from one account to another within the same appropriation center can be made without City Council approval. All budget transfers from one appropriation center to another or from the General Fund Contingent Appropriation account must be approved by City Council. In all other funds, line item budget transfers from one account to another within the same department and fund can be made without City Council approval.

All unencumbered appropriations lapse at the end of the fiscal year unless specific requests to reserve funds for capital items are made by the departments and approved by the City Controller. The subsequent fiscal year's budget is then amended when these expenditures are recorded. Encumbrances outstanding at June 30, 2006 do not lapse but are brought forward to the new fiscal year.

The General Fund, Community Development, Major Streets, Local Streets, Rubbish Collection, Police Grants, Drug Forfeiture, Andersen Center Operation, Boat Launch Operation and Economic Development Special Revenue Funds are under formal budgetary control as is required by Michigan Public Act 621. Budgets shown in the financial statements were prepared on the modified accrual basis. This is the same basis used to reflect actual results and consists only of those amounts contained in the formal budget approved by City Council. Special Revenue Funds are considered to be departments for budgetary purposes. All Enterprise and Internal Service Funds are budgeted annually for internal control purposes only. Budgetary information for these funds is not required in the financial statements. Budgetary control for the Capital Projects Fund is on a project basis because most exceed one fiscal year. Any funds not expended during the current fiscal year are carried forward until spent or reallocated. City Council does not formally adopt budgets for the Municipal Streets, Marina Grant, and Urban Development Action Grant Special Revenue Funds or the Trust and Agency Funds.

Cash and Cash Equivalents - Cash and cash equivalents for all funds includes amounts in demand deposits, petty cash and certain investments which are payable upon the demand of the City and have an original maturity of three months or less. Cash balances in most of the City's operating funds are pooled and invested in various investments throughout the year. Each fund's cash balance is reported in a separate cash account and the City allocates interest earnings based on the average cash balance in each fund during the year. For purposes of the Statement of Cash Flows, the City considers all highly liquid investments held by trustees with a maturity of three months or less when purchased to be cash equivalents. In addition, all cash and investments with the City Treasurer are also considered to be cash equivalents since they are available on demand.

Investments – All investments are stated at fair value. It is the general intent of the City to hold investments to maturity. In the Policemen and Firemen Pension Fund, investments are traded when the opportunity to increase the overall yield of the investment portfolio arises.

Employee Sick Leave, Vacation/PTO and Compensatory Time - The liability for unused sick and vacation/PTO hours as earned by employees at various rates has been recorded as long-term liabilities in the governmental and business-type activities. AFSCME, SEIU and non-union management employees are paid for all of their accumulated PTO days, up to a maximum of 1,312 hours, upon death, termination or retirement. Fire fighters are paid for all of their accumulated PTO days, up to a maximum of 2,148 hours, upon death, termination or retirement. POAM union employees are paid for one-half of their accumulated unused sick days upon death or retirement up to a maximum of 1,312 hours in addition to their unused vacation hours. Certain employee groups are allowed to accumulate overtime hours and later use these accumulated hours as time off in lieu of a cash payment.

Encumbrances - Encumbrances are commitments under purchase orders or contracts. Outstanding encumbrances at year-end are not recorded as expenditures until the goods or services are received. Only those encumbrances that are recorded as payables at June 30 are included as expenditures for budgetary presentations. Fund balance has been reserved for all outstanding encumbrances in the governmental fund types and will be recorded as expenditures in the subsequent fiscal year.

Interfund Receivables and Payables - During the course of its operations, the City has numerous transactions between funds to finance operations, provide services, construct assets and service debt. To the extent that certain transactions between funds had not been received or paid as of June 30, 2006, the resulting interfund receivables and payables have been recorded (see Note N).

Inventories - Supplies inventories recorded in the various fund types are stated at cost. Inventories in the Special Revenue, Enterprise and Internal Service Funds consist of expendable materials and supplies held for consumption. The costs of the materials and supplies are recorded as expenditures/expenses at the time they are used. Until then, they are considered to be an asset. Physical inventories are taken at the end of each fiscal year and the asset account is adjusted accordingly. Inventories in the Enterprise and Internal Service Funds are valued on the average cost method. Inventories in the Special Revenue Funds are valued on the first-in, first-out method. The inventory balances in the Major Streets Special Revenue Funds are equally offset by a fund balance reserve, which indicates that these amounts do not constitute "available spendable resources" even though they are a component of current assets.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$3,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

For the governmental activities, infrastructure includes only those infrastructure assets acquired subsequent to July 1, 2002.

Depreciation - It is computed using the straight-line method over the estimated useful lives of the related assets as follows: streets system infrastructure (7-50 years), buildings and improvements (50 years); combined sewer overflow facilities (25 years); wave pool complex (25 years); plant equipment (15 years); radio equipment (8 years); office and data processing equipment (5 years); and vehicles (5 years).

Long-term Obligations - In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In fund financial statements, governmental fund types recognize bond premium and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Reservations and Designations of Fund Equities - Reservations of fund balance are established to identify (1) claims against resources of the entity that have not materialized as liabilities at the balance sheet date, or (2) the existence of assets that, because of their non-monetary nature or lack of liquidity, represent financial resources not available for current appropriation or expenditure, for example: encumbrances, prepaid items, inventories, specific projects and long-term advances to other funds. Such reserves are not intended as valuation allowances, but merely demonstrate the current unavailability of the subject assets to pay current expenditures. Designations of fund balance have been made for Capital Projects, Self Insurance Fund, Workers Compensation, Parking Fund and Budget Stabilization. These portions of fund balance are intended to be used for these purposes and are not available for appropriation or expenditure. Restrictions of net assets in the Enterprise Funds represent amounts that are required to be segregated in accordance with City ordinances. These portions of net assets are intended to be used for these purposes and are not available for appropriation or expense.

Restricted Assets - Restricted assets result from revenue bond ordinance reserve requirements and proceeds of bond issues stipulated for construction of capital assets. They also result from other legal or contractual requirements which restrict the use of resources.

NOTE C - DEPOSITS AND INVESTMENTS

| | <u>Deposits</u> | <u>Investments</u> | <u>Total</u> |
|--------------------------------------|----------------------|-----------------------|-----------------------|
| Financial statement caption: | | | |
| Primary Government: | | | |
| Cash and cash equivalents | \$ 16,641,855 | \$ - | \$ 16,641,855 |
| Investments | - | 6,613,920 | 6,613,920 |
| Restricted cash and cash equivalents | 520,013 | 1,704,139 | 2,224,152 |
| Restricted investments | - | 2,332,606 | 2,332,606 |
| Component Units: | | | |
| Cash and cash equivalents | 3,235,577 | - | 3,235,577 |
| Fiduciary Funds: | | | |
| Cash and cash equivalents | 1,803,649 | - | 1,803,649 |
| Restricted cash and cash equivalents | 4,708,993 | - | 4,708,993 |
| Investments | - | 120,208,536 | 120,208,536 |
| | <u>\$ 26,910,087</u> | <u>\$ 130,859,201</u> | <u>\$ 157,769,288</u> |

Investments – The City’s investment policy is in compliance with Michigan Compiled Laws, Section 129.91. State statutes authorize the City to invest public funds in the following:

- Bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase A-1 or A-2 by Standard and Poor’s Corporation or P-1 or P-2 by Moody’s Commercial Paper Record and which matures not more than 270 days after the day of purchase.
- Bankers acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through 12/31/97.
- The Policemen and Firemen Retirement System is also authorized to invest a portion of its assets in stocks that are registered on a national securities exchange that have paid dividends for five of the last seven years and mutual funds of diversified investment companies having assets greater than \$100 million.

As of June 30, 2006, the maturities and credit quality rating of debt securities are as follows:

| | | Investment Maturities (In Years) | | | | |
|--------------------------------------------------|--------------------|----------------------------------|--------------|---------------|----------------|-----------------------|
| | | Less | | | More | |
| | <u>Fair Value</u> | <u>Than 1</u> | <u>1 - 5</u> | <u>6 - 10</u> | <u>Than 10</u> | <u>S&P Rating</u> |
| Primary Government | | | | | | |
| Bank Inv. Pooled Funds | \$ 555,429 | | | | | Not Rated |
| Corporate Bonds | 482,245 | | | | | Not Rated |
| Money Market Funds | 5,459,698 | | | | | Not Rated |
| MI Class Pooled Funds | 2,203,210 | | | | | Not Rated |
| Mutual Funds | 520,384 | | | | | Not Rated |
| U.S. Govt. Agencies | <u>1,429,699</u> | \$ | 1,429,699 | | | AAA |
| Total Primary Government | <u>10,650,665</u> | | | | | |
| Pension and Other Employee Benefits Funds | | | | | | |
| Money Market Funds | 1,203,664 | | | | | Not Rated |
| Government Obligations | 3,368,085 | | 4,771,314 | \$1,115,892 | \$ 1,026,600 | AAA |
| Government Agencies | 18,837,873 | \$ 500,933 | 2,072,651 | 3,942,500 | 8,323,114 | AAA |
| Mortgage Backed Securities | 3,958,299 | | 18,616 | 29,828 | 1,904,025 | AAA |
| Corporate Bonds | 12,586,625 | 178,700 | 1,832,746 | 3,104,627 | 14,160,498 | AAA - BBB- |
| Collateralized Mgt. Obligations | 2,081,628 | | | 1,412,128 | 1,597,378 | AAA |
| Common Stocks | 49,272,412 | | | | | N/A |
| Mutual Funds | <u>28,899,950</u> | | | | | Not Rated |
| Total Police & Firemen Fund | <u>120,208,536</u> | | | | | |
| Total Investments | \$130,859,201 | | | | | |

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified above. The City's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year end \$16,735,636 of the City's bank balance of \$17,082,215 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. However, while uninsured and unregistered, the City's funds are not exposed to custodial credit risk since the securities are held in the counterparty's trust department in the City's name.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified above. The City's investment policy does not have specific limits in excess of state law on concentration of credit. All investments held at year end are reported above.

NOTE D - RECEIVABLES

Receivables as of year end for the City's governmental and business-type activities in the aggregate, are as follows:

| | Governmental Activities | Business Type Activities | Component Units |
|------------------------------------|----------------------------|-----------------------------|--------------------|
| Income Taxes | \$ 1,342,882 | \$ - | \$ - |
| Accounts | 1,635,647 | 4,820,808 | - |
| Accrued Interest | 22,173 | 2,086 | 6,532 |
| Intergovernmental | 5,589,094 | 937,758 | 91,241 |
| Property Taxes | 206,372 | - | 95,950 |
| Assessments | | | |
| Due within one year | 533,851 | 57,014 | - |
| Due after one year | 30,099 | - | - |
| Notes | | | |
| Due within one year | 35,000 | - | - |
| Due after one year | 1,642,354 | - | - |
| Reserve for uncollectible accounts | (245,416) | (76,129) | - |
| Total receivables | <u>\$ 10,792,056</u> | <u>\$ 5,741,537</u> | <u>\$ 193,723</u> |

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

| | Unavailable | Unearned |
|---------------------------------------------------------------|---------------------|-------------------|
| Property taxes receivable (General Fund) | \$ 138,029 | \$ - |
| Property taxes receivable (Non-major Governmental fund types) | 68,344 | - |
| Accounts receivable (General Fund) | 1,063,033 | - |
| Accounts receivable (Community Development) | 103,969 | - |
| Assessments receivable (General Fund) | 17,180 | - |
| Assessments receivable (Non-major Governmental fund types) | 12,919 | - |
| Notes receivable | 1,645,930 | - |
| Grant drawdowns prior to meeting all eligibility requirements | - | 985,090 |
| | <u>\$ 3,049,404</u> | <u>\$ 985,090</u> |

NOTE E - PAYABLES

Accounts payable and accrued expenses as of year end for the City's governmental and business-type activities in the aggregate, are as follows:

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> |
|---------------------|-------------------------------------------|--------------------------------------------|
| Payables: | | |
| Accounts | \$ 1,619,683 | \$ 2,036,346 |
| Accrued liabilities | 673,701 | 201,626 |
| Intergovernmental | 259,846 | 28,714 |
| Deposits | 683,199 | 792,465 |
| Accrued interest | <u>29,346</u> | <u>265,221</u> |
| Total payables | <u>\$ 3,265,775</u> | <u>\$ 3,324,372</u> |

NOTE F- LONG-TERM OBLIGATIONS

| | <u>Balance June 30, 2005</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance June 30, 2006</u> | <u>Due Within One Year</u> |
|-----------------------------------------------------------------|----------------------------------|---------------------|-----------------------|----------------------------------|--------------------------------|
| <u>Business-type activities:</u> | | | | | |
| 4.70% to 6.00% 2000 water revenue bonds | \$ 4,100,000 | \$ - | \$ (1,420,000) | \$ 2,680,000 | \$ 1,515,000 |
| 2.00% State of Michigan sewage disposal system bonds | 30,445,920 | - | (3,305,794) | 27,140,126 | 3,270,870 |
| 2.25% State of Michigan sewage disposal system bonds | 7,417,088 | - | (484,890) | 6,932,198 | 497,860 |
| 2.50% State of Michigan sewage disposal system bonds | 12,604,648 | - | (695,000) | 11,909,648 | 720,000 |
| 3.60% to 5.50% Drake/Douglas sewage general obligation bonds | 1,100,000 | - | (25,000) | 1,075,000 | 25,000 |
| 1.625% State of Michigan wastewater treatment improvement bonds | - | 2,393,794 | - | 2,393,794 | 145,000 |
| Accrued sick and vacation/PTO payable | 1,073,584 | 605,240 | (538,956) | 1,139,868 | 538,956 |
| Plus: Deferred gain on refunding | <u>82,585</u> | <u>-</u> | <u>(27,533)</u> | <u>55,052</u> | <u>-</u> |
| Total business-type activities | <u>\$ 56,823,825</u> | <u>\$ 2,999,034</u> | <u>\$ (6,497,173)</u> | <u>\$ 53,325,686</u> | <u>\$ 6,712,686</u> |

| | Balance June 30, 2005 | Additions | Deductions | Balance June 30, 2006 | Due Within One Year |
|---------------------------------------------------------------------------------|--------------------------|---------------------|-----------------------|--------------------------|------------------------|
| <u>Governmental activities:</u> | | | | | |
| Workers' compensation claims payable | \$ 2,390,339 | \$ - | \$ (517,252) | \$ 1,873,087 | \$ - |
| Insurance claims payable | 603,651 | - | (81,561) | 522,090 | - |
| 5.10% to 5.90% 1994 general obligation judgment bonds | 285,000 | - | (65,000) | 220,000 | 70,000 |
| Installment contracts payable: | | | | | |
| Street dump trucks | 51,101 | - | (51,101) | - | - |
| Compost Screener | 15,917 | - | - | 15,917 | 15,917 |
| Pierce fire pumpers | 461,163 | - | (305,118) | 156,045 | 156,045 |
| Komatsu wheel loader | - | 111,348 | (27,837) | 83,511 | 27,837 |
| Morbark wood chipper | 40,690 | - | (17,711) | 22,979 | 12,896 |
| Bobcat skid loader | - | 54,758 | (5,728) | 49,030 | 10,202 |
| Accrued sick, vacation /PTO, compensatory time payable | 5,603,969 | 1,490,562 | (1,607,888) | 5,486,643 | 1,607,888 |
| Section 108 loans payable to Department of Housing and Urban Development (DHUD) | <u>2,245,000</u> | <u>-</u> | <u>(475,000)</u> | <u>1,770,000</u> | <u>420,000</u> |
| Total governmental activities | <u>\$ 11,696,830</u> | <u>\$ 1,656,668</u> | <u>\$ (3,154,196)</u> | <u>\$ 10,199,302</u> | <u>\$ 2,320,785</u> |

Internal service funds predominately serve the governmental funds. Accordingly, long-term liabilities for those funds are included as part of the above totals for governmental activities.

For the governmental activities, workers' compensation and insurance claims payable are liquidated by the internal service funds and accrued sick and vacation/PTO payable and compensatory time payable are generally liquidated by the general fund and certain special revenue funds.

The annual requirements to pay principal and interest on long-term obligations outstanding at June 30, 2006, excluding accrued sick and vacation/PTO payable, workers' compensation payable, insurance claims payable, compensatory time payable and Section 108 loans payable to DHUD are as follows:

| Due In | <u>Business-type Activities</u> | | <u>Governmental Activities</u> | | <u>Totals</u> | |
|-----------|---------------------------------|---------------------|--------------------------------|------------------|----------------------|---------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2007 | \$ 6,173,730 | \$ 1,184,071 | \$ 292,897 | \$ 19,315 | \$ 6,466,627 | \$ 1,203,386 |
| 2008 | 5,886,476 | 1,018,131 | 123,627 | 10,777 | 6,010,103 | 1,028,908 |
| 2009 | 4,710,737 | 856,265 | 114,076 | 5,660 | 4,824,813 | 861,925 |
| 2010 | 4,756,755 | 756,839 | 11,796 | 559 | 4,768,551 | 757,398 |
| 2011 | 4,852,266 | 655,848 | 5,086 | 62 | 4,857,352 | 655,910 |
| 2012 | 4,975,954 | 552,177 | | | 4,975,954 | 552,177 |
| 2013 | 5,046,915 | 446,095 | | | 5,046,915 | 446,095 |
| 2014 | 3,771,080 | 351,935 | | | 3,771,080 | 351,935 |
| 2015 | 3,463,082 | 272,584 | | | 3,463,082 | 272,584 |
| 2016 | 1,746,620 | 213,068 | | | 1,746,620 | 213,068 |
| 2017 | 1,783,539 | 170,685 | | | 1,783,539 | 170,685 |
| 2018 | 1,658,972 | 129,111 | | | 1,658,972 | 129,111 |
| 2019 | 1,557,975 | 88,403 | | | 1,557,975 | 88,403 |
| 2020 | 1,327,871 | 46,891 | | | 1,327,871 | 46,891 |
| 2021 | 218,794 | 15,270 | | | 218,794 | 15,270 |
| 2022 | 100,000 | 7,500 | | | 100,000 | 7,500 |
| 2023 | 100,000 | 2,500 | | | 100,000 | 2,500 |
| | <u>\$ 52,130,766</u> | <u>\$ 6,767,373</u> | <u>\$ 547,482</u> | <u>\$ 36,373</u> | <u>\$ 52,678,248</u> | <u>\$ 6,803,746</u> |

The total requirements of principal and interest on long-term obligations at June 30, 2006 for business-type activity obligations are summarized as follows:

| <u>Business-type activities obligations:</u> | <u>Principal</u> | <u>Interest</u> |
|------------------------------------------------------------------|----------------------|---------------------|
| Water Revenue Bonds | \$ 2,680,000 | \$ 206,872 |
| State of Michigan Sewage Disposal System Bonds (2.00%) | 27,140,126 | 2,267,032 |
| State of Michigan Sewage Disposal System Bonds (2.25%) | 6,932,198 | 1,067,655 |
| State of Michigan Sewage Disposal System Bonds (2.50%) | 11,909,648 | 2,346,450 |
| Drake/Douglas General Obligation Bonds | 1,075,000 | 564,519 |
| State of Michigan Sewage Treatment Improvement Bonds (1.625%) | 2,393,794 | 314,845 |
| Total Enterprise Obligations | <u>\$ 52,130,766</u> | <u>\$ 6,767,373</u> |

The total requirements of principal and interest on long-term obligations at June 30, 2006 for governmental activities obligations are summarized as follows:

| <u>Governmental Activities Obligations:</u> | <u>Principal</u> | <u>Interest</u> |
|---------------------------------------------|----------------------|---------------------|
| 1994 Debt Service Judgment | | |
| Bonds | \$ 220,000 | \$ 19,583 |
| Pierce Fire Pumps | 156,045 | 2,372 |
| Compost Screener | 15,917 | 876 |
| Komatsu Wheel Loader | 83,511 | 6,993 |
| Morbark Wood Chippers | 22,979 | 1,012 |
| Bobcat Skid Loader | 49,030 | 5,537 |
| Total General Obligations | <u>547,482</u> | <u>36,373</u> |
| Total Future Debt Service Requirements | <u>\$ 52,678,248</u> | <u>\$ 6,803,746</u> |

State law and the City's revenue bond ordinances require that the City maintain such user charges and fees for service as may be required to meet all operating, reserve and debt service requirements. These ordinances also require various accounts be maintained to cover operation and maintenance; improvements and extension; repairs and replacements; and a reserve for bond and interest redemption. Annual contributions are made to these accounts as required and to the reserve for bond and interest redemption to maintain it at a level equal to the largest annual debt service payment outstanding. Any funds remaining after meeting these requirements may be placed in a surplus fund to be used to meet future debt or reserve requirements or to provide a means of financing further improvements and extensions to the water system.

NOTE G - ACTIVITY EXCEEDING APPROPRIATIONS

The following funds had excess of expenditures over appropriation at the legal level of budgetary control:

| | <u>Appropriations</u> | <u>Actual</u> | <u>Budget Variance</u> |
|-----------------------------------------|-----------------------|---------------|----------------------------|
| GENERAL FUND: | | | |
| General Government | | | |
| Cable Television Operation | \$ 41,110 | \$ 42,762 | \$ 1,652 |
| Elections | 124,251 | 126,114 | 1,863 |
| Retiree Health Insurance | 1,598,180 | 1,678,723 | 80,543 |
| Geographical Information System Charges | 35,262 | 35,268 | 6 |
| Fiscal Services | | | |
| Controller | 500,188 | 570,812 | 70,624 |
| Public Safety | | | |
| Administration | \$ 333,867 | \$ 345,753 | \$ 11,886 |
| Patrol | 8,350,110 | 8,742,563 | 392,453 |
| Suppression | 8,857,030 | 9,134,221 | 277,191 |
| Training | 184,719 | 188,817 | 4,098 |
| General Services | | | |
| Street Lighting | 537,700 | 583,806 | 46,106 |
| Abatement of Nuisances | 57,886 | 134,803 | 76,917 |
| Building and Grounds Maintenance | 855,418 | 977,779 | 122,361 |
| Community Services | | | |
| Demolitions | - | 38,608 | 38,608 |
| Planning and Economic Development | 313,590 | 320,355 | 6,765 |

| | <u>Appropriations</u> | <u>Actual</u> | <u>Budget Variance</u> |
|--------------------------------------|-----------------------|---------------|----------------------------|
| SPECIAL REVENUE FUNDS: | | | |
| Community Development | | | |
| Grant expenditures | 492,855 | 885,105 | 392,250 |
| Capital outlay – public improvements | 498,076 | 825,286 | 327,210 |

NOTE H – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Disposals</u> | <u>Ending Balance</u> |
|---------------------------------------------|------------------------------|--------------------|----------------------|---------------------------|
| Governmental activities | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 14,755,225 | \$ 7,663 | \$ - | \$ 14,762,888 |
| Construction in progress | <u>1,421,267</u> | <u>71,756</u> | <u>(1,421,267)</u> | <u>71,756</u> |
| Total capital assets not being depreciated | <u>\$ 16,176,492</u> | <u>79,419</u> | <u>(1,421,267)</u> | <u>14,834,644</u> |
| Capital assets being depreciated: | | | | |
| Infrastructure | 8,419,305 | 453,972 | - | 8,873,277 |
| Building | 14,276,917 | 1,495,889 | - | 15,772,806 |
| Equipment | 7,410,129 | 77,617 | - | 7,487,746 |
| Vehicle and radio equipment | <u>10,053,238</u> | <u>426,693</u> | <u>(123,213)</u> | <u>10,356,718</u> |
| Total capital assets being depreciated | <u>40,159,589</u> | <u>2,454,171</u> | <u>(123,213)</u> | <u>42,490,547</u> |
| Less accumulated depreciation | | | | |
| Infrastructure | (943,224) | (418,969) | - | (1,362,193) |
| Building | (8,287,284) | (319,607) | - | (8,606,891) |
| Equipment | (5,350,367) | (578,298) | - | (5,928,665) |
| Vehicle and radio equipment | <u>(6,821,837)</u> | <u>(538,339)</u> | <u>110,257</u> | <u>(7,249,919)</u> |
| Total accumulated depreciation | <u>(21,402,712)</u> | <u>(1,855,213)</u> | <u>110,257</u> | <u>(23,147,668)</u> |
| Total capital assets being depreciated, net | <u>18,756,877</u> | <u>598,958</u> | <u>(12,956)</u> | <u>19,342,879</u> |
| Governmental activities | | | | |
| Capital assets, net | <u>\$ 34,933,369</u> | <u>\$ 678,377</u> | <u>\$(1,434,223)</u> | <u>\$ 34,177,523</u> |

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Disposals</u> | <u>Ending Balance</u> |
|------------------------------------------------|------------------------------|----------------------|------------------|---------------------------|
| Business-type activities | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 1,610,838 | \$ - | \$ - | \$ 1,610,838 |
| Construction in progress | 334,411 | 2,445,833 | - | 2,780,244 |
| Total capital assets not being depreciated | <u>1,945,249</u> | <u>2,445,833</u> | <u>-</u> | <u>4,391,082</u> |
| Capital assets being depreciated: | | | | |
| Building and Improvements | 132,468,188 | 1,844,006 | - | 134,312,194 |
| CSO facilities | 103,188,901 | - | - | 103,188,901 |
| Equipment | <u>7,372,353</u> | <u>447,035</u> | <u>-</u> | <u>7,819,388</u> |
| Total capital assets being depreciated | <u>243,029,442</u> | <u>2,291,041</u> | <u>-</u> | <u>245,320,483</u> |
| Less accumulated depreciation | | | | |
| Building and improvements | (77,838,557) | (2,397,830) | - | (80,236,387) |
| CSO facilities | (37,884,045) | (3,963,626) | - | (41,847,671) |
| Equipment | <u>(5,438,595)</u> | <u>(223,903)</u> | <u>-</u> | <u>(5,662,498)</u> |
| Total accumulated depreciation | <u>(121,161,197)</u> | <u>(6,585,359)</u> | <u>-</u> | <u>(127,746,556)</u> |
| Total capital assets being depreciated, net | <u>121,737,421</u> | <u>(4,294,318)</u> | <u>-</u> | <u>117,573,927</u> |
| Business-type activities | | | | |
| Capital assets, net | <u>\$123,813,494</u> | <u>\$(1,848,485)</u> | <u>\$ -</u> | <u>\$121,965,009</u> |

The Wave Pool Enterprise Fund assets were idle for the year ended June 30, 2006. At June 30 they had a net carrying value of \$926,810.

Depreciation expense was charged to functions/programs of the primary government as follows:

| | |
|--------------------------------------------------------------|---------------------------|
| Governmental activities: | |
| General government | \$ 401,153 |
| Fiscal Services Administration | 13,310 |
| Fire | 178,118 |
| Police | 107,336 |
| General services | 220,860 |
| Community services | 12,210 |
| Highways and streets | 418,968 |
| Internal service funds | <u>503,258</u> |
| Total depreciation expense – governmental activities | <u>\$1,855,213</u> |
| Business-type activities: | |
| Water | \$1,182,441 |
| Sewer | 5,209,710 |
| Parking | 51,437 |
| Wave Pool | <u>141,771</u> |
| Total depreciation expense – business-type activities | <u>\$6,585,359</u> |

NOTE I - LITIGATION, CONTINGENCIES, COMMITMENTS AND SUBSEQUENT EVENTS

The City is a defendant in various civil and administrative legal actions arising during the normal course of its activities. In accordance with FASB Statement 5, Accounting for Contingencies, the City accrues for loss contingencies when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated (see Note O).

The City Attorney protects the legal interests of the City by vigorously defending these actions and believes these actions will either be favorably resolved or that it is too early to estimate any possible loss upon the outcome of such cases. Often, the City Attorney negotiates expedient settlements on behalf of the City in amounts substantially less than the amount sought by the claimants. The City does not admit liability, however, in any of the cases settled.

The City is self-insured for workers' compensation. Over the past few years, the number of workers' compensation claims has greatly decreased. In accordance with GASB Statement No. 10, an estimate of the City's workers' compensation liability has been recorded in an Internal Service Fund (see Note O).

NOTE J – INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2006, consisted of the following amounts:

| | Transfers from: | | | | | Total |
|-----------------------|-------------------|-----------------------|-----------------------|-------------------|--|---------------------|
| | General Fund | Community Development | Nonmajor Governmental | Internal Service | | |
| Transfers to: | | | | | | |
| General Fund | \$ - | \$- | \$ - | \$ 405,186 | | \$ 405,186 |
| Nonmajor governmental | 473,193 | 269,151 | 633,241 | 30,730 | | 1,406,315 |
| Water | - | - | - | 21,034 | | 21,034 |
| Internal Service | - | - | 39,241 | - | | 39,241 |
| | <u>\$ 473,193</u> | <u>\$ 269,151</u> | <u>\$ 672,482</u> | <u>\$ 456,950</u> | | <u>\$ 1,871,776</u> |

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the fund collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected into the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE K – DEFICIT BALANCES IN FUND EQUITIES

In the Nonmajor Enterprise Funds, the Parking Fund had a net assets deficit at the fiscal year ended June 30, 2006 in the amount of \$211,245. In the Internal Service Funds, the Self Insurance Fund and the Workers' Compensation Fund had net assets deficits at the fiscal year ended June 30, 2006 in the amount of \$176,362 and \$206,059, respectively. Deficit Elimination Plans will be prepared for Council approval and then filed with the Local Audit and Finance Division of the State of Michigan.

NOTE L - RETIREMENT SYSTEMS

The City participates in three pension plans: the City of Saginaw Policemen and Firemen Retirement System, a single-employer defined benefit system, the Michigan Municipal Employees Retirement System (MERS), a State administered agent multi-employer defined benefit public retirement system that acts as a common investment and administrative agent for virtually all Michigan municipal employees, and a defined contribution system through MERS and ICMA. Permanent, full time employees not covered under the Policemen and Firemen Retirement System are covered under MERS if employed before June 30, 2000. After June 30, 2000, new permanent, full time employees not covered by the Policemen and Firemen Retirement System are covered under the defined contribution system that is held in trust by ICMA for the sole benefit of the participating employees. The Policemen and Firemen pension plan is maintained as a Pension Trust Fund and is reported on herein as part of the City's reporting entity. The required supplemental 6-year historical trend information provides information about the progress made in accumulating sufficient assets to pay benefits when due.

DEFINED CONTRIBUTION PENSION PLAN

The City of Saginaw Employees Defined Contribution Pension Plan (the "Plan") is a single employer defined contribution pension plan, established by the City and administered by an outside third-party administrator. All City employees hired after July 1, 2000, with the exception of certain bargaining units, are required to participate in the Plan. As the union contracts of the non-participating bargaining units are renegotiated, new employees of these units are added to the Plan. All other City employees that are not vested in the City's Defined Benefit Plan have the option of becoming a participant in the Defined Contribution Plan.

Employees vest in the City's contributions according to years of service completed. Employees with 3 years of service are 20% vested. The vesting schedule increases 20% for each additional year of service, with the employee becoming fully vested upon 7 years of completed service.

At June 30, 2006, there were 89 plan members. The City is required to contribute 10% of the employees' gross wages and the eligible employee is required to contribute 5% of their gross wages. The contribution requirements of plan members and the City are established and may be amended by the City Council.

Employer contributions to the Plan for the year ended June 30, 2006 amounted to \$380,479 and employee contributions were \$196,075.

A stand-alone pension plan report has not been issued for the defined contribution plan.

MICHIGAN MUNICIPAL EMPLOYEES RETIREMENT SYSTEM

Plan Description

The City's defined benefit pension plan, the City of Saginaw Employees Retirement Plan, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan, 48917 or by calling (800) 767-6377.

All permanent, full time employees not covered under the Policemen and Firemen Retirement System are covered under MERS.

Funding Policy

The City is required to contribute an amount equal to a percentage of covered payroll which is determined based on union negotiated rates and actuarially determined rates; the current rate to cover normal costs ranges from 25.47% to 69.9% of annual covered payroll. Under the plan, eligible employees are required to contribute 4.7% of earned wages to the MERS plan. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

Annual Pension Cost

For the year ended June 30, 2006, the City's annual pension cost of \$3,335,932 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2005, the date of the latest actuarial valuation, was 22 years.

Three-Year Trend Information

| Fiscal Year Ending | Annual Pension Cost (APC) | Percentage Of APC Contributed | Net Pension Obligation |
|--------------------------|---------------------------------|-------------------------------------|------------------------------|
| 06/30/04 | \$ 2,303,220 | 100% | \$ 0 |
| 06/30/05 | 3,056,773 | 100% | 0 |
| 06/30/06 | 3,335,932 | 100% | 0 |

Schedule of Funding Progress

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) Entry Age | Unfunded AAL (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|--------------------------------|---------------------------------|------------------------------------------------------|---------------------------|-----------------|--------------------|--------------------------------------------------|
| 12/31/03 | \$ 77,584,618 | \$ 124,739,715 | \$ 47,155,097 | 69% | \$ 10,357,413 | 455% |
| 12/31/04 | 76,412,097 | 134,160,873 | 57,748,776 | 57% | 9,837,556 | 587% |
| 12/31/05 | 76,032,977 | 135,876,876 | 59,843,899 | 56% | 9,005,017 | 665% |

POLICEMEN AND FIREMEN RETIREMENT SYSTEM

Plan Description and Contribution Information

The City has a single-employer defined benefit contributory pension plan which provides retirement, death and disability benefits covering all Police and Fire personnel of the City, subject to certain eligibility requirements. Membership of the plan consisted of the following at June 30, 2004 the date of the latest actuarial valuation:

| | |
|-----------------------------------------------|------------|
| Retirees and beneficiaries receiving benefits | 381 |
| Active plan members | <u>178</u> |
| Total | <u>559</u> |

Eligible members of the Plan are required to contribute eight percent (8%) for police, with an additional 3.5% for patrol and command members, and eight percent (8%) for fire of their annual compensation to the Plan with the City contributing such additional amounts as are necessary to provide assets sufficient to meet the benefits to be paid to Plan members. The current rate paid by the City is 40.61% of annual covered payroll for police patrol and command and 44.11% for all other members.

The City of Saginaw is the Administrator of the Plan. Administrative costs of the Plan are financed through investment earnings. The Plan is included as a pension trust fund in the City's financial statements and a stand alone financial report of the Plan has not been issued.

Plan amendments are under the authority of Ordinance D One, Chapter 5, Article One, of the Saginaw General Code which states all amendments are to be approved by City Council. Changes in required contributions are approved by the Policemen and Firemen Pension Board.

Significant Accounting Policies

Basis of Accounting - The Plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which they are due. The City's contributions to the Plan are recognized when due and the employer has made a formal commitment to provide them. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Investments - Investments are reported at fair value which is determined using selected bases as follows: short-term investments are reported at cost, which approximates fair value; securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates; investments that do not have established fair values are reported at estimated fair value; and cash deposits are reported at carrying amounts which reasonably estimates fair value.

No single investment comprised more than five percent of the total investments for the Police and Fire Retirement System at June 30.

The Plan's annual pension cost of \$3,626,717 was equal to the Plan's required and actual contributions for the current year.

The annual required contribution for the current year was determined as part of a June 30, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.75% to 17.75% per year. Both (a) and (b) included an inflation component of 4.75%. The assumptions did not include post-retirement benefits. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the fair value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2004 was 27 years.

GASB Statement No. 25 Required Supplementary Information is presented after the Footnotes on page 56.

NOTE M - EMPLOYEE BENEFITS

In addition to contributing to the Michigan Municipal Employees Retirement System described in Note L, all full time City employees, except sworn Police and Fire personnel, contribute to Social Security (6.20%), up to a maximum of \$4,984.80, and Medicare (1.45%). All sworn Police and Fire personnel hired after April 1, 1986 contribute 1.45% to Medicare. All regular part time employees, those who work between twenty and thirty-two hours per week, contribute 1.45% to Medicare and 3.75% to a deferred compensation account in lieu of Social Security. The City contributes a matching 3.75%.

The City paid or accrued premiums, claims and administrative fees to third party administrators for its full time employees totaling \$4,710,756, an increase of 13.35% from the prior fiscal year, as follows:

| | <u>Fiscal Year 2006</u> | <u>Fiscal Year 2005</u> | <u>Increase (Decrease)</u> |
|----------------------------|-----------------------------|-----------------------------|--------------------------------|
| Health Insurance | \$ 3,929,434 | \$ 3,295,113 | \$ 634,321 |
| Dental Insurance | 323,287 | 316,403 | 6,884 |
| Life Insurance | 148,173 | 113,766 | 34,407 |
| Short/Long term disability | 225,841 | 350,290 | (124,449) |
| Vision Care | <u>84,021</u> | <u>80,450</u> | <u>3,571</u> |
| Total Payments | <u>\$ 4,710,756</u> | <u>\$ 4,156,022</u> | <u>\$ 554,734</u> |

The cost of these premiums is charged to City funds based on the actual cost for each employee.

OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note L, the City of Saginaw continues health insurance coverage to all employees upon retirement according to Union contracts negotiated with the various employee bargaining groups. Life insurance is also provided upon retirement as follows: \$6,000 for the Fire fighters employee group; \$7,000 for the Police Command employee group; and \$10,000 for the non-union Management, Supervisory, Police Patrol, Salaried and Hourly employee groups. Dental insurance is continued upon retirement only to the Fire fighters covered by Delta Dental. Dental insurance for all other employee groups is terminated upon retirement.

In addition to the health care expenditures for full time employees above, expenditures in the amount of \$7,118,911 were recognized for postretirement health care benefits, an increase of 24.1%, over the prior fiscal year, as follows:

| | <u>No. of Retirees</u> | <u>Fiscal Year 2006</u> | <u>Fiscal Year 2005</u> |
|------------------|----------------------------|-----------------------------|-----------------------------|
| Health Insurance | 713 | \$ 7,062,242 | \$ 5,683,241 |
| Dental Insurance | 76 | 40,914 | 37,655 |
| Life Insurance | 517 | <u>15,755</u> | <u>15,336</u> |
| Total Payments | | <u>\$ 7,118,911</u> | <u>\$ 5,736,232</u> |

The cost of these premiums is charged to City funds based on the actual cost for each retiree.

The City has obtained an actuarial valuation as of June 30, 2001, that indicates that the City has a \$115 million liability for unfunded postretirement health care benefits that has not been recorded in the City's financial statements

NOTE N - INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2006 consisted of the following:

| | Due From | | | | | |
|--------------------------|-----------------|--------------------------|--------------------------|------------------------|---------------------|--------------|
| | General Fund | Community Development | Nonmajor Governmental | Nonmajor Enterprise | Internal Service | Total |
| Due to: | | | | | | |
| General Fund | \$ - | \$ 43,000 | \$ - | \$ - | \$ - | \$ 43,000 |
| Nonmajor governmental | 9,824 | - | - | - | - | 9,824 |
| Sewer | - | - | - | 232,191 | - | 232,191 |
| Internal Service | 162,482 | - | 186,390 | 329,272 | 414,154 | 1,092,298 |
| Total | \$ 172,306 | \$ 43,000 | \$ 186,390 | \$ 561,463 | \$ 414,154 | \$ 1,377,313 |

The balance of \$43,000 due to the General Fund from the Community Development Fund resulted from loans made in the Community Development Fund for the use of residential rehabilitation known as the Russell Street Homes. As these loans are paid back to the Community Development Fund, the money is transferred to the General Fund to reduce the interfund receivable.

All remaining balances resulted from the time lag between the dates that (1) goods and services are provided or reimbursable expenditures occur and (2) transactions are recorded in the accounting system.

NOTE O – SELF INSURANCE

General Liability

The City's insurance carriers are Genesis Insurance Company for general liability coverage and St Paul Insurance for vehicle damage and liability. The City is insured up to \$21 million with a \$100,000 deductible per occurrence for general liability and for \$15,000 per vehicle/\$30,000 per occurrence with a \$1,000 deductible for automobile liability. There were no reductions of insurance coverage from the prior year.

The self-insurance program for general liability is accounted for in the Self Insurance Internal Service Fund. The revenues for this fund's operation are reimbursements from various funds and a transfer from the General Fund. Funds are charged for general liability insurance based on total budget. Losses, deductibles, legal and administrative fees are paid from this fund. The liability for known claims is estimated by ASC, a third-party claims administrator.

The changes in the claims liability for the fiscal years ended June 30, 2005 and 2006 are as follows:

| | Beginning Claims Liability | Current Year Claims and Changes in Reserves | Claims Paid | Ending Claims Liability |
|---------|----------------------------------|------------------------------------------------------|----------------|-------------------------------|
| 6/30/05 | \$ 674,194 | \$ (15,223) | \$ (55,320) | \$ 603,651 |
| 6/30/06 | 603,651 | (14,644) | (66,917) | 522,090 |

Other types of risk are covered by commercial insurance. There were no insurance settlements that exceeded coverage in the last three years.

Health Insurance

The self-insurance program for health insurance is accounted for in the Employee Benefits Agency Fund, with any expenses charged to the applicable departments within the City's other funds, and the Public Employee Healthcare Fund (trust fund). An independent administrator (Blue Cross) is hired to process the daily claims. The City is responsible for individual claims up to \$50,000 and Blue Cross is responsible for paying the claims above this amount. There were no reductions of insurance coverage from the prior year. The City is also responsible for paying administrative charges and for actual prescription claims. The revenues for this Fund's operation are reimbursements from various funds. The liability of the end of the year is based on claims already incurred and reported and on estimates of incurred but not reported claims as provided by Blue Cross.

The changes in the claims liability for the year ended June 30, 2006 are as follows:

| | Beginning Claims Liability | Current Year Claims and Changes in Reserves | Claims Paid | Ending Claims Liability |
|---------|----------------------------------|------------------------------------------------------|----------------|-------------------------------|
| 6/30/06 | \$ - | \$ 609,223 | \$ - | \$ 609,223 |

Workers' Compensation

The self-insurance program for workers' compensation is accounted for in the Workers' Compensation Internal Service Fund. Cambridge, Inc. administers this program. They are responsible for processing incident reports, claims investigation, payment of claims and coordinating workers' compensation cases with the City's Employee Services Division. The revenues for this fund's operation are reimbursements from various funds and a transfer from the General Fund. Funds are charged for workers' compensation insurance on a percentage of actual salaries. The percentages vary depending on the payroll classification of each employee and are a composite of the rates of several insurance companies. Deposits for claims and administrative expenses are paid from this fund. The liability for known claims is estimated by Cambridge, Inc. Incurred But Not Reported claims are judged to be immaterial by Management.

The City also carries Excess Workers' Compensation coverage for claims exceeding \$300,000 and Employers' Liability coverage in the amount of \$1,000,000 through American Home Assurance Company. These coverages will provide financial protection for the City in the event of a major employment-related catastrophe. The City currently has ten workers' compensation claims that exceed \$300,000.

The changes in the claims liability for the fiscal years ended June 30, 2005 and 2006 are as follows:

| | Beginning Claims Liability | Current Year Claims and Changes in Reserves | Claims Paid | Ending Claims Liability |
|---------|----------------------------------|------------------------------------------------------|----------------|-------------------------------|
| 6/30/05 | \$ 2,307,062 | \$573,051 | \$ 489,774 | \$ 2,390,339 |
| 6/30/06 | 2,390,339 | (87,162) | 430,090 | 1,873,087 |

NOTE P - PROPERTY TAXES

City property taxes are levied each July 1 on the taxable value of property located in the City as of the preceding December 31, tax day and the lien date. In accordance with the provisions of Proposal A (see below), taxable value is the lower of the following three computations: 1) assessed/state equalized value; 2) the prior year's taxable value multiplied by the increase in the consumer price index or five percent (5%), whichever is less; or 3) the multiplier value. Proposal A requires the City Assessor to annually establish the assessed values and the equalization of said assessed values by the State of Michigan at 50 percent of current market value, prior to the application of formulas to determine the taxable value. Real property taxable value for the July 1, 2005 levy was assessed at \$586,486,625 and personal property taxable value was assessed at \$120,114,398.

The City of Saginaw's operating tax rate for the fiscal year ended June 30, 2006 was 5.4185 mills (limited to 7.50 mills) with an additional 2.9532 mills for rubbish collection. The City did not levy for debt service.

On March 15, 1994, voters in the State of Michigan approved Proposal A, a property tax reform proposal, which shifted the funding of education from property taxes to a combination of property taxes, higher sales tax and a real estate transfer tax. Property taxes were reduced to a maximum of six mills for homestead property and eighteen mills for non-homestead property; the State Sales Tax was increased from four cents to six cents; and a new real estate transfer tax of \$7.50 per thousand dollars was added. In addition, Proposal A restricted the growth of assessments on individual properties to the increase in the consumer price index or five percent (5%), whichever is less, until ownership of the property is transferred. The citizens of Saginaw subsequently approved an additional four mills for public libraries when Proposal A eliminated their millage from the school's millage and another three mills to operate a public transportation system.

Taxes are due and payable on July 1 at the City Treasurer's Office and become delinquent after 30 days. To all real and personal taxes paid on or after August 1, there shall be added interest at the rate of $\frac{1}{2}$ of 1 percent for every month, or fraction thereof, from August 1 until the date of payment. A penalty of $\frac{1}{2}$ of 1 percent is also added after July 31. From March 1 and thereafter, real taxes are collected by the Treasurer of Saginaw County, who adds and keeps a collection fee of four percent (4%) on the unpaid balance, and in addition, adds interest at the rate of one percent (1%) per month from March 1 until the date of payment. Unpaid taxes, together with all charges thereon, become a continuing lien on the property assessed. The general tax law provides that real estate with delinquent taxes shall be sold at a state land sale.

Tax Limitation

By general law, property taxes for City purposes are limited to two percent (2%) of the assessed valuation of all real and personal property in the municipality, provided that no such restriction shall prevent the levy of taxes required for the payment of general debt obligations.

The charter of the City of Saginaw provided that City taxes shall be subject to the overall limitation (City, School and County) imposed by Section 21, Article X, of the Michigan State Constitution, which is 1-1/2 percent of assessed value exclusive of debt incurred prior to December 8, 1932. Act No. 44, Public Acts of 1948, effective August 20, 1948, amended all Michigan city charters nullifying charter limitations and authorized that the levy for city purposes shall not exceed one percent (1%) of assessed valuation in any one year, unless and until a different tax rate limitation is provided by charter. State equalized valuations have been used in place of local assessed valuations.

On November 6, 1979, pursuant to an initiatory referendum, the City Charter was amended by the electors of the City of Saginaw to reduce the maximum property tax, which may be levied by the City in any year from 10 mills to 7.50 mills. The amendment further provided that if in subsequent years the assessed value of all property within the City is increased for any reason, this maximum 7.50 mill rate would have to be permanently reduced so as to yield the same gross dollar revenue as the fiscal year 1979 property tax revenue yield (\$3,828,778). The amendment further provided for up to a 3 mill emergency levy if a specific emergency is declared by the Mayor and concurred in by a 3/4ths vote of the full Council.

On November 5, 2002 and May 3, 2005, special elections were held to remove the property tax dollar limitation of \$3,828,778 and the 7.50 mill limitation that was approved by the voters on November 6, 1979. The voters overwhelmingly defeated the proposal in both special elections.

NOTE Q - ECONOMIC DEVELOPMENT PROJECTS

Primary Government:

Baker Perkins Project

The City purchased a large industrial complex located in the southern area of the City at the end of 1987 and leased the office portion of the site to the seller. In February 1988, the City sold the office portion to Krauss Portfolio, Ltd. (KPL) and they assumed the lease with the former owner of the property. The balance of the site was retained by the Local Development Finance Authority (LDFA) for future development.

The LDFA leased the majority of the balance of the property comprising the Baker Perkins Project and the use of the property and certain equipment to Saginaw Industrial Machining, Inc. (SIM) to operate an industrial machining business. The business is financed with a line of credit from LaSalle Bank, secured by the assignment by the City (and the LDFA through private developers) of a portion of an income stream obtained from payments of tax increments made by the Tax Increment Finance Authority (TIFA) to the City from the Saginaw Division Tower Project.

In November 1989, the LDFA approved the sale of the Baker Perkins complex to the Saginaw Industrial Center (SIC). SIC agreed to remodel the facility, lease space and personal property to tenants and market it as an inner-city industrial park. The LDFA would act as an optional lessee and would lease space, if necessary, in the facility to provide an ongoing cash stream for debt service. The developer secured a \$1.1 million loan from a local bank to purchase the option from KPL, exercise the option and purchase the balance of the site from the LDFA and to make improvements to the facility. The bank's security would be the optional lease from the LDFA. The TIFA and LDFA pledged a portion of the cash stream from the Saginaw Division Tower Project to make the lease payments, if necessary. The payments assigned by the City to LaSalle Bank would be made by the developer, but still backed by the LDFA. The LDFA would have a first mortgage on the Baker Perkins real estate and personal property and a secured personal guarantee from an independent individual to make the LDFA whole in case of a loss.

On August 20, 1990, the TIFA and LDFA approved a Comprehensive Development Agreement with Saginaw Plastic Molding, Inc. (SPM). This project established SPM as an operating tenant at the SIC property and secured an additional \$825,000 loan from Citizens Bank primarily for the purchase of machinery and equipment which will be leased by SIC to SIM and SPM for its use. This loan is secured by an amendment to the existing Master Lease and amendments to the assignments of the income streams not already committed.

The LDFA used the income stream to pay debt service payments on the new bank loan. SPM agreed to repay the LDFA all sums advanced, with interest, amortized over the then remaining term of the General Motors lease.

On April 17, 1996, the LDFA deferred the repayment of Interim Rental Advances made to SPM until the earlier of: 1) the date SPM completes the lease obligations for its blow molding machine under the Equipment Lease; or 2) the date the Equipment Lease is otherwise terminated for any reason including default of SPM. The LDFA also waived the payment of interest on the Interim Rental Advances provided SPM does not default in any of its obligations. No payments were made by SPM during the fiscal year.

Brownfield Authority Site Remediation Revolving Fund (SRRF)

The City received a grant in the amount of \$200,000 from the U.S. Environmental Protection Agency for a Brownfields Assessment Demonstration Pilot. Peerless Environmental Services, Inc. was selected to prepare an inventory of contaminated sites, prioritize the sites and perform Phase 1 environmental assessments. Businesses must prepare a Redevelopment Plan to clean up the site and make improvements. The eligible costs can be reimbursed from property taxes that are captured from the increase in the taxable value established at the date the City Council approves the Plan and the taxable value after improvements are completed. School taxes are excluded from captured taxes unless the project receives special review from the Michigan Department of Environmental Quality.

On April 12, 2000, the City was awarded a supplemental grant from the U.S. Environmental Protection Agency in the amount of \$200,000 to continue environmental testing of sites along the Saginaw River and in the City's Renaissance Zones and to expand the eligible areas to include the entire Brownfield Authority Zone.

NOTE R - RESTATEMENTS

An adjustment was made in the Motor Pool Fund to properly record the value of capital leases payable June 30, 2005. The liability was overstated and net assets were understated in 2005. The adjustment had the following effect on the beginning net assets:

| | |
|---------------------------------------------------|---------------------|
| Net assets, as previously stated | \$ 1,416,843 |
| Prior period adjustment to capital leases payable | <u>8,737</u> |
| Net assets, as restated | <u>\$ 1,425,580</u> |

An adjustment was made in the Sewer Fund to properly record the grants receivable at June 30, 2005. The asset was understated and net assets were understated in 2005. The adjustment had the following effect on the beginning net assets:

| | |
|----------------------------------------|----------------------|
| Net assets, as previously stated | \$ 47,842,131 |
| Prior period adjustment to receivables | <u>731,299</u> |
| Net assets, as restated | <u>\$ 48,573,430</u> |

The Sewer Fund prior period adjustment also had the same effect on the beginning net assets of the Business-Type Activities.

For the Governmental Activities on the Statement of Net Assets for the year ended June 30, 2005, an error was made in accounting for capital leases payable. The Motor Pool Fund's prior period adjustment also had an effect on beginning of the year net assets. In addition, the Public Employee Healthcare Fund was reclassified from an Internal Service Fund to a Trust Fund. These items had the following effect on the beginning net assets:

| | |
|-----------------------------------------------------|----------------------|
| Net assets, as previously stated | \$ 42,493,922 |
| Prior period adjustments: | |
| Adjustment to capital leases payable | 15,088 |
| Effect of Motor Pool adjustment | 8,737 |
| Reclassification of Public Employee Healthcare Fund | <u>(1,224,943)</u> |
| Net assets, as restated | <u>\$ 41,292,804</u> |

NOTE S – SUBSEQUENT EVENTS

In April 2006, the City accepted the bid from Champagne & Marx, Inc. for the Hoyt Avenue reconstruction project. This project involved repaving and water main reconstruction for approximately \$1,600,000 to be completed by November 2006.

In September 2005, the City issued limited tax general obligation bonds in the amount of \$10,000,000 for the purpose of making capital improvements to the wastewater treatment plant, including screening and grit removal equipment, new and renovated primary treatment tanks, and raw sewage pumping station and related improvements. In September 2005 the City accepted the bid from Gerace Construction in the amount of \$3,925 million for the Wastewater Treatment Plant project. This project will replace the screening within the plant, and is divided into three phases. Phase I was underway as of June 30, 2006. The total project cost for Phase I will be approximately \$5 million, with \$3.5 million to be provided through SRF Bonds, and the remainder coming from EPA grants and local matching funding.

**REQUIRED
SUPPLEMENTARY
INFORMATION**

CITY OF SAGINAW
GASB STATEMENT NO. 25 REQUIRED SUPPLEMENTARY INFORMATION
POLICEMEN AND FIREMEN RETIREMENT SYSTEM

Six-Year Trend Information

| <u>Year Ending</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|------------------------|------------------------------------------|----------------------------------------------|---------------------------------------|
| 6/30/01 | \$ 2,774,774 | 100% | \$ 0 |
| 6/30/02 | 3,117,085 | 100% | 0 |
| 6/30/03 | 2,938,416 | 100% | 0 |
| 6/30/04 | 3,429,637 | 100% | 0 |
| 6/30/05 | 3,369,291 | 100% | 0 |
| 6/30/06 | 3,626,717 | 100% | 0 |

Schedule of Funding Progress

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets</u> | <u>Actuarial Accrued Liability (AAL) Entry Age</u> | <u>Unfunded AAL (UAAL)</u> | <u>Funded Ratio</u> | <u>Covered Payroll</u> | <u>UAAL as a Percentage of Covered Payroll</u> |
|-----------------------------------------|------------------------------------------|----------------------------------------------------------------|------------------------------------|-------------------------|----------------------------|------------------------------------------------------------|
| 6/30/99 | \$117,394,374 | \$126,108,914 | \$ 8,714,540 | 93% | \$ 11,669,475 | 75% |
| 6/30/00 | 129,367,787 | 133,634,986 | 4,267,199 | 97% | 12,487,533 | 34% |
| 6/30/01 | 135,682,004 | 140,839,430 | 5,157,246 | 96% | 11,489,493 | 45% |
| 6/30/02 | 135,026,633 | 148,878,425 | 13,851,792 | 91% | 11,732,914 | 118% |
| 6/30/03 | 128,401,451 | 148,989,436 | 20,587,985 | 86% | 10,208,281 | 202% |
| 6/30/04 | 120,251,339 | 157,533,568 | 37,282,229 | 76% | 9,903,748 | 376% |

**SUPPLEMENTARY
INFORMATION**

MAJOR GOVERNMENTAL FUNDS

GENERAL FUND

This fund is the general operating fund of the City. All general tax revenues, state revenue sharing, income tax and other receipts that are not allocated by law or contractual agreement to another fund are accounted for here. This fund accounts for the general operating expenditures of the City, such as Police and Fire, Recreation, Cemeteries, Employee Services, Inspections, Fiscal Services, Public Works and Engineering and all other expenditures not recorded elsewhere.

CITY OF SAGINAW, MICHIGAN
BALANCE SHEET
GENERAL FUND
June 30, 2006
(With Comparative Actual Amounts for June 30, 2005)

| | 2006 | 2005 |
|--------------------------------------------|---------------------|---------------------|
| <u>ASSETS</u> | | |
| Cash and cash equivalents | \$ - | \$ 469,886 |
| Income taxes receivable | 1,342,882 | 1,679,869 |
| Accounts receivable, net of allowances | 1,269,011 | 1,740,934 |
| Accrued interest receivable | 14,492 | 9,726 |
| Due from other governmental units | 3,404,742 | 3,336,993 |
| Property taxes receivable | 138,029 | 129,192 |
| Assessments receivable | 80,693 | 101,875 |
| Investments | 1,844,918 | 1,717,450 |
| Due from other funds | - | 22,242 |
| Restricted assets | | |
| Cash and cash equivalents | 200,000 | 200,000 |
| Long-term advances to other funds | 43,000 | 44,704 |
| TOTAL ASSETS | \$ 8,337,767 | \$ 9,452,871 |
| <u>LIABILITIES AND FUND BALANCES</u> | | |
| <u>Liabilities</u> | | |
| Accounts payable | \$ 411,463 | \$ 472,938 |
| Accrued wages payable | 533,981 | 563,849 |
| Due to other governmental units | 134,509 | 74,734 |
| Due to other funds - Note N | 172,306 | 1,224,002 |
| Customer deposits | 683,199 | 589,631 |
| Deferred revenue - Note D | 1,218,242 | 1,549,456 |
| Total Liabilities | 3,153,700 | 4,474,610 |
| <u>Fund balances</u> | | |
| Reserved for: | | |
| Encumbrances | 14,644 | 36,081 |
| Long-term advances to other funds | 43,000 | 44,704 |
| Unreserved: | | |
| Designated for: | | |
| Self Insurance Fund | 176,362 | 266,595 |
| Workers' Compensation Fund | 206,059 | 790,932 |
| Parking Fund | 211,245 | 409,238 |
| Budget stabilization | 214,492 | 209,726 |
| Subsequent year's expenditures | 724,111 | - |
| Undesignated, reported in: | | |
| General Fund | 3,594,154 | 3,220,985 |
| Total Fund Balances | 5,184,067 | 4,978,261 |
| TOTAL LIABILITIES AND FUND EQUITIES | \$ 8,337,767 | \$ 9,452,871 |

CITY OF SAGINAW, MICHIGAN
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2006
(With Comparative Actual Amounts for the Year ended June 30, 2005)

| | For the Year Ended June 30, 2006 | | | | Year Ended June 30, 2005 |
|--------------------------------------------------|----------------------------------|-------------------|---------------------|-----------------------------|-----------------------------|
| | Original Budget | Amended Budget | Actual | Variance Over (Under) | Actual |
| REVENUES | | | | | |
| General operating property taxes | \$ 3,768,736 | \$ 3,768,736 | \$ 3,787,630 | \$ 18,894 | \$ 3,657,758 |
| Special assessments | 140,000 | 140,000 | 67,076 | (72,924) | 93,334 |
| City income tax | 12,700,000 | 13,004,240 | 13,549,513 | 545,273 | 13,228,923 |
| State shared revenues | | | | | |
| Sales tax | 10,232,572 | 10,232,572 | 10,079,971 | (152,601) | 10,398,895 |
| Race track | 60,000 | 60,000 | 16,964 | (43,036) | 53,208 |
| Liquor licenses | 25,000 | 25,000 | 46,495 | 21,495 | 45,612 |
| Total State Shared Revenues | 10,317,572 | 10,317,572 | 10,143,430 | (174,142) | 10,497,715 |
| Departmental and miscellaneous | | | | | |
| Housing and business licenses | 530,000 | 530,000 | 398,386 | (131,614) | 204,531 |
| Construction and other permits | 217,810 | 217,810 | 274,443 | 56,633 | 261,431 |
| Fees | 894,638 | 894,638 | 865,618 | (29,020) | 863,842 |
| Fines, penalties and forfeitures | 297,960 | 297,960 | 294,540 | (3,420) | 410,552 |
| Grants, donations and contributions | 2,216,683 | 2,219,943 | 2,385,433 | 165,490 | 2,011,394 |
| Interest | 291,126 | 291,126 | 491,679 | 200,553 | 256,756 |
| Rents and privileges | 82,000 | 82,000 | 51,500 | (30,500) | - |
| Sale of materials and services | 1,476,277 | 1,392,615 | 933,534 | (459,081) | 1,057,108 |
| Total Departmental and Miscellaneous Revenues | 6,006,494 | 5,926,092 | 5,695,133 | (230,959) | 5,065,614 |
| TOTAL REVENUES | 32,932,802 | 33,156,640 | 33,242,782 | 86,142 | 32,543,344 |
| EXPENDITURES | | | | | |
| General Government | 3,912,775 | 3,851,619 | 3,596,652 | (254,967) | 3,702,025 |
| Fiscal Services (Administration) | 2,037,960 | 2,227,803 | 2,194,405 | (33,398) | 2,045,421 |
| Public Safety | 22,576,643 | 22,647,030 | 22,992,670 | 345,640 | 22,116,629 |
| General Services | 2,648,165 | 2,803,539 | 2,818,023 | 14,484 | 2,858,392 |
| Community Services | 1,178,652 | 1,028,767 | 1,050,383 | 21,616 | 1,074,485 |
| Debt Service | 316,836 | 316,836 | 316,836 | - | 316,835 |
| TOTAL EXPENDITURES | 32,671,031 | 32,875,594 | 32,968,969 | 93,375 | 32,113,787 |
| REVENUES OVER (UNDER) EXPENDITURES | 261,771 | 281,046 | 273,813 | (7,233) | 429,557 |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers in | 406,250 | 406,250 | 405,186 | (1,064) | 319,732 |
| Transfers out | (601,521) | (618,732) | (473,193) | 145,539 | (837,474) |
| TOTAL OTHER FINANCING SOURCES (USES) | (195,271) | (212,482) | (68,007) | 144,475 | (517,742) |
| Net change in fund balances | \$ 66,500 | \$ 68,564 | 205,806 | \$ 137,242 | (88,185) |
| Fund balances at beginning of year | | | 4,978,261 | | 5,066,446 |
| FUND BALANCES AT END OF YEAR | | | \$ 5,184,067 | | \$ 4,978,261 |

CITY OF SAGINAW, MICHIGAN
SCHEDULE OF DEPARTMENTAL AND MISCELLANEOUS REVENUES
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2006

| | <u>Original Budget</u> | <u>Amended Budget</u> | <u>Actual Revenues</u> | <u>Variance Over (Under)</u> |
|--------------------------------------------------|----------------------------|---------------------------|----------------------------|--------------------------------------|
| LICENSES | | | | |
| Business and occupational | \$ 230,000 | \$ 230,000 | \$ 102,408 | \$ (127,592) |
| Rental housing | <u>300,000</u> | <u>300,000</u> | <u>295,978</u> | <u>(4,022)</u> |
| TOTAL LICENSES | <u>530,000</u> | <u>530,000</u> | <u>398,386</u> | <u>(131,614)</u> |
| CONSTRUCTION AND OTHER PERMITS | <u>217,810</u> | <u>217,810</u> | <u>274,443</u> | <u>56,633</u> |
| FEES | | | | |
| Property tax administration | 302,588 | 302,588 | 365,626 | 63,038 |
| Gun registration | 1,000 | 1,000 | 1,520 | 520 |
| Zoning code | 15,000 | 15,000 | 6,135 | (8,865) |
| Witness | 15,000 | 15,000 | 7,043 | (7,957) |
| Japanese Tea House | 10,000 | 10,000 | 6,414 | (3,586) |
| Vehicle storage | 30,000 | 30,000 | 2,970 | (27,030) |
| Hazmat clean up | 6,000 | 6,000 | 9,194 | 3,194 |
| Fire Department | 50 | 50 | 450 | 400 |
| Cable television | <u>515,000</u> | <u>515,000</u> | <u>466,266</u> | <u>(48,734)</u> |
| TOTAL FEES | <u>894,638</u> | <u>894,638</u> | <u>865,618</u> | <u>(29,020)</u> |
| FINES, PENALTIES AND FORFEITURES | | | | |
| Traffic violations (except parking) | 115,000 | 115,000 | 106,924 | (8,076) |
| Traffic violations - parking | 24,750 | 24,750 | 19,058 | (5,692) |
| Penalties on property taxes | 81,210 | 81,210 | 126,397 | 45,187 |
| Transfer affidavit fines | <u>77,000</u> | <u>77,000</u> | <u>42,161</u> | <u>(34,839)</u> |
| TOTAL FINES, PENALTIES AND FORFEITURES | <u>297,960</u> | <u>297,960</u> | <u>294,540</u> | <u>(3,420)</u> |
| GRANTS, DONATIONS AND CONTRIBUTIONS | | | | |
| City/County/School Liaison | 10,000 | 10,000 | 10,000 | - |
| FEMA grant | - | - | 25,436 | 25,436 |
| Indirect costs | 2,188,683 | 2,188,683 | 2,188,692 | 9 |
| Reimbursement for Police overtime | 18,000 | 18,000 | 75,593 | 57,593 |
| Other grants | <u>-</u> | <u>3,260</u> | <u>85,712</u> | <u>82,452</u> |
| TOTAL GRANTS, DONATIONS AND CONTRIBUTIONS | <u>2,216,683</u> | <u>2,219,943</u> | <u>2,385,433</u> | <u>165,490</u> |

CITY OF SAGINAW, MICHIGAN
SCHEDULE OF DEPARTMENTAL AND MISCELLANEOUS REVENUES
AND OPERATING TRANSFERS IN
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2006

| | <u>Original Budget</u> | <u>Amended Budget</u> | <u>Actual Revenues</u> | <u>Variance Over (Under)</u> |
|-----------------------------------------------------------------------|----------------------------|---------------------------|----------------------------|--------------------------------------|
| INTEREST | | | | |
| Investments | \$ 140,000 | \$ 140,000 | \$ 269,195 | \$ 129,195 |
| Cemetery endowments | 40,000 | 40,000 | - | (40,000) |
| Deferred special assessments | 13,376 | 13,376 | 17,053 | 3,677 |
| City income taxes | <u>97,750</u> | <u>97,750</u> | <u>205,431</u> | <u>107,681</u> |
| TOTAL INTEREST | <u>291,126</u> | <u>291,126</u> | <u>491,679</u> | <u>200,553</u> |
| RENTS AND PRIVILEGES | | | | |
| Land and buildings | <u>82,000</u> | <u>82,000</u> | <u>51,500</u> | <u>(30,500)</u> |
| SALE OF MATERIALS AND SERVICES | | | | |
| Cemetery services and markers | 386,000 | 386,000 | 332,121 | (53,879) |
| Cemetery grave spaces | 100,000 | 100,000 | 94,745 | (5,255) |
| Police Department services | 30,000 | 30,000 | 30,270 | 270 |
| Abandoned vehicle auction proceeds (net) | 100,000 | 100,000 | 18,045 | (81,955) |
| Fire Department services | 11,000 | 11,000 | 3,989 | (7,011) |
| Engineering plans and specifications | 2,000 | 2,000 | 965 | (1,035) |
| Sale of land | 60,000 | 60,000 | 6 | (59,994) |
| Insurance proceeds | - | 47,688 | 115,054 | 67,366 |
| Surplus receipts | 179,600 | 184,100 | 39,101 | (144,999) |
| Elections services | - | - | 740 | 740 |
| Other | <u>607,677</u> | <u>471,827</u> | <u>298,498</u> | <u>(173,329)</u> |
| TOTAL SALE OF MATERIALS AND SERVICES | <u>1,476,277</u> | <u>1,392,615</u> | <u>933,534</u> | <u>(459,081)</u> |
| TRANSFERS IN | | | | |
| Sick and Vacation Fund | <u>406,250</u> | <u>406,250</u> | <u>405,186</u> | <u>(1,064)</u> |
| TOTAL DEPARTMENTAL AND MISCELLANEOUS REVENUES AND TRANSFERS IN | <u>\$ 6,412,744</u> | <u>\$ 6,332,342</u> | <u>\$ 6,100,319</u> | <u>\$ (232,023)</u> |

CITY OF SAGINAW, MICHIGAN
SCHEDULE OF APPROPRIATIONS AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2006

| | Original Budget | Amended Budget | Actual Expenditures | Variance Over (Under) |
|-----------------------------------------------|--------------------|-------------------|------------------------|-----------------------------|
| GENERAL GOVERNMENT | | | | |
| City Council | \$ 81,766 | \$ 81,766 | \$ 73,109 | \$ (8,657) |
| City/County/School Liason | - | 15,000 | 11,898 | (3,102) |
| City Manager | 489,347 | 423,592 | 400,438 | (23,154) |
| Cable Television Operation | 40,960 | 41,110 | 42,762 | 1,652 |
| Employee Services | 567,404 | 515,182 | 475,049 | (40,133) |
| City Clerk | 333,812 | 334,612 | 268,788 | (65,824) |
| Elections | 124,251 | 124,251 | 126,114 | 1,863 |
| City Attorney | 611,541 | 611,237 | 484,503 | (126,734) |
| Unemployment Compensation | 71,427 | 71,427 | - | (71,427) |
| Retiree Health Insurance | 1,557,005 | 1,598,180 | 1,678,723 | 80,543 |
| Geographical Information System Charges | 35,262 | 35,262 | 35,268 | 6 |
| TOTAL GENERAL GOVERNMENT | 3,912,775 | 3,851,619 | 3,596,652 | (254,967) |
| FISCAL SERVICES (Administration) | | | | |
| Administration | 226,478 | 254,590 | 230,830 | (23,760) |
| Controller | 485,188 | 500,188 | 570,812 | 70,624 |
| Treasurer/Income Tax | 765,654 | 899,385 | 864,024 | (35,361) |
| Assessor | 426,188 | 439,188 | 395,498 | (43,690) |
| Purchasing | 134,452 | 134,452 | 133,241 | (1,211) |
| TOTAL FISCAL SERVICES (Administration) | 2,037,960 | 2,227,803 | 2,194,405 | (33,398) |
| PUBLIC SAFETY | | | | |
| Police Department | | | | |
| Administration | 332,098 | 333,867 | 345,753 | 11,886 |
| Patrol | 8,364,003 | 8,350,110 | 8,742,563 | 392,453 |
| Administrative Services | 474,947 | 474,629 | 411,336 | (63,293) |
| Investigation | 1,904,084 | 1,851,619 | 1,758,558 | (93,061) |
| Building and Property Management | 1,220,630 | 1,216,585 | 1,172,335 | (44,250) |
| Technical Services | 502,282 | 519,664 | 457,513 | (62,151) |
| Total Police Department | 12,798,044 | 12,746,474 | 12,888,058 | 141,584 |

Continued

CITY OF SAGINAW, MICHIGAN
SCHEDULE OF APPROPRIATIONS AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2006

| | Original Budget | Amended Budget | Actual Expenditures | Variance Over (Under) |
|----------------------------------------|--------------------|-------------------|------------------------|-----------------------------|
| PUBLIC SAFETY (CONTINUED) | | | | |
| Fire Department | | | | |
| Administration | \$ 389,724 | \$ 379,946 | \$ 365,339 | \$ (14,607) |
| Suppression | 8,728,335 | 8,857,030 | 9,134,221 | 277,191 |
| Training | 220,038 | 184,719 | 188,817 | 4,098 |
| Prevention | 163,531 | 163,695 | 148,173 | (15,522) |
| Apparatus Operation and Maintenance | 276,971 | 315,166 | 268,062 | (47,104) |
| Total Fire Department | 9,778,599 | 9,900,556 | 10,104,612 | 204,056 |
| TOTAL PUBLIC SAFETY | 22,576,643 | 22,647,030 | 22,992,670 | 345,640 |
| GENERAL SERVICES | | | | |
| Public Works and Engineering | 123,412 | 123,412 | 111,599 | (11,813) |
| Street Lighting | 537,700 | 537,700 | 583,806 | 46,106 |
| Public Improvements | 495,539 | 495,539 | 392,692 | (102,847) |
| Traffic Engineering | 51,512 | 11,188 | - | (11,188) |
| Abatement of Nuisances | 57,886 | 57,886 | 134,803 | 76,917 |
| Cemeteries Operation and Maintenance | 667,541 | 667,541 | 565,934 | (101,607) |
| Adult Sports | - | 5,000 | 4,505 | (495) |
| Japanese Tea House and Cultural Center | 49,855 | 49,855 | 46,905 | (2,950) |
| Parks Building Maintenance | 17,394 | - | - | - |
| City Hall Maintenance | 1,046 | - | - | - |
| Building and Grounds Maintenance | 646,280 | 855,418 | 977,779 | 122,361 |
| TOTAL GENERAL SERVICES | 2,648,165 | 2,803,539 | 2,818,023 | 14,484 |
| COMMUNITY SERVICES | | | | |
| Inspections and Zoning | 783,562 | 693,677 | 686,420 | (7,257) |
| Demolitions | - | - | 38,608 | 38,608 |
| Planning and Economic Development | 373,590 | 313,590 | 320,355 | 6,765 |
| Contributions to Other Organizations | 21,500 | 21,500 | 5,000 | (16,500) |
| TOTAL COMMUNITY SERVICES | 1,178,652 | 1,028,767 | 1,050,383 | 21,616 |

Continued

CITY OF SAGINAW, MICHIGAN
SCHEDULE OF APPROPRIATIONS AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2006

| | Original Budget | Amended Budget | Actual Expenditures | Variance Over (Under) |
|-----------------------------------------------------------------|----------------------|----------------------|------------------------|-----------------------------|
| DEBT SERVICE | | | | |
| Principal | \$ 305,118 | \$ 305,118 | \$ 305,118 | \$ - |
| Interest | 11,718 | 11,718 | 11,718 | - |
| TOTAL DEBT SERVICE | 316,836 | 316,836 | 316,836 | - |
| TRANSFERS OUT | | | | |
| Transfers to Internal Service Funds: | | | | |
| Information Services Fund | - | 1,587 | - | (1,587) |
| Transfers to Special Revenue Funds: | | | | |
| Streets Funds | 475,958 | 491,582 | 390,452 | (101,130) |
| Police Grant Funds | 125,563 | 125,563 | 82,741 | (42,822) |
| TOTAL TRANSFERS OUT | 601,521 | 618,732 | 473,193 | (145,539) |
| TOTAL APPROPRIATIONS, EXPENDITURES AND TRANSFERS OUT | \$ 33,272,552 | \$ 33,494,326 | \$ 33,442,162 | \$ (52,164) |

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

MAJOR, LOCAL AND MUNICIPAL STREETS FUNDS

The Major and Local Streets Funds receive allocations of State collected gasoline taxes and license fees to be used for the maintenance, repair and construction of streets and bridges within the City. The Municipal Street Fund functions as an inventory account for street maintenance materials. These materials are reallocated to the Major and Local Streets Funds upon completion of construction.

RUBBISH COLLECTION FUND

Under authority of State law, the City levies a special property tax earmarked to support the cost of operating a weekly rubbish collection and disposal service. This fund accounts for the tax levy proceeds, household rubbish fees and composting fees. It also records the expenditures for rubbish collection, hauling and disposal, recycling, composting and trash cleanup.

MARINA GRANT FUND

This fund accounts for the revenues and expenditures of grant funds received from the Michigan Department of Natural Resources. Funds will be used for land acquisition, development and construction of a marina.

COMMUNITY POLICING FUND

This fund accounts for the revenues and expenditures of Police officers assigned to various City neighborhoods. This program provides the residents with a greater sense of protection and gives them the responsibility for developing and implementing problem solving strategies for their neighborhoods.

AUTO THEFT PREVENTION GRANT FUND

This fund accounts for grant funds received from the State of Michigan pursuant to Act 10 of the Public Acts of 1986. These funds are used by the Saginaw Police Department and Saginaw Township Police Department for the prevention and investigation of automobile thefts in Saginaw County.

POLICE TRAINING FUND

The fund accounts for allocations received from the State of Michigan pursuant to Act 302 of the Public Acts of 1982. Distributions are made twice annually based on the number of sworn Police officers. These funds can only be expended for direct costs of criminal justice training of Police officers.

YOUTH INITIATIVE GRANT FUND

This fund accounts for grant funds received from the U.S. Department of Justice. The funds will be used to engage youths and their families in programs that will enhance their self-awareness, self esteem and reduce their use of substances through participation in substance abuse programs.

NONMAJOR GOVERNMENTAL FUNDS

(continued)

SPECIAL REVENUE FUNDS

DRUG FORFEITURE FUND

This fund accounts for all expenditures and funds received from the forfeiture of cash and property seized during drug raids.

ANDERSEN CENTER OPERATION FUND

This fund accounts for the operation and maintenance expenditures and building rentals for the Andersen Enrichment Center. This fund also accounts for the private donations and individual contributions received by the Saginaw Community Enrichment Commission to provide financial support to cultural and creative arts organizations and to sponsor various social and community events to improve the quality of life in the City.

URBAN DEVELOPMENT ACTION GRANT

This fund accounts for the repaid loans received from the developer of the Saginaw Division Tower building. The developer received a Section 108 Loan and an Urban Development Action Grant from the Department of Housing and Urban Development for the renovation of the building and site clearance.

BOAT LAUNCH OPERATION FUND

This fund accounts for the revenues collected from the Wickes and Rust Avenue boat launches for parking and admission fees. This fund also accounts for the operation and maintenance expenditures of these facilities.

ECONOMIC DEVELOPMENT FUND

This fund was established to provide funds to be used as local match for federal and state grants for riverfront development projects. These funds are proceeds from a loan that was paid off when the Morley Building was sold.

CARL H. IBERSHOFF FUND

This fund accounts for monies received from the Carl H. Ibershoff Trust.

NONMAJOR GOVERNMENTAL FUNDS

(continued)

DEBT SERVICE FUND

The Debt Service Fund is used to account for the accumulated resources used for the payment of general obligation bond principal and interest. The current payments are related to the 1994 Judgment Bonds.

CAPITAL PROJECTS FUND

The Capital Projects Fund is used to account for the acquisition and construction of major capital facilities other than those financed by Proprietary Funds.

PERMANENT FUND

The Permanent Fund is used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for cemetery care and parks improvements purposes in support of the City's programs.

CITY OF SAGINAW, MICHIGAN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2006

| | Special Revenue Funds | | | |
|--------------------------------------------|-----------------------|-------------------|----------------------|-----------------------|
| | Major Streets | Local Streets | Municipal Streets | Rubbish Collection |
| <u>ASSETS</u> | | | | |
| Cash and cash equivalents | \$ 488,422 | \$ - | \$ - | \$ 459,994 |
| Accounts receivable, net of allowances | 16,888 | - | - | - |
| Accrued interest receivable | - | - | - | - |
| Due from other governmental units | 656,183 | 173,079 | - | - |
| Inventory | 389,944 | - | - | - |
| Property taxes receivable | - | - | - | 68,343 |
| Assessments receivable | - | 15,846 | - | 467,411 |
| Due from other funds | - | - | - | - |
| Restricted assets | | | | |
| Cash and cash equivalents | - | - | - | - |
| Investments | - | - | - | - |
| TOTAL ASSETS | \$ 1,551,437 | \$ 188,925 | \$ - | \$ 995,748 |
| <u>LIABILITIES AND FUND BALANCES</u> | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 220,628 | \$ 5,247 | \$ - | \$ 355,050 |
| Accrued wages payable | 35,380 | 13,552 | - | 13,526 |
| Due to other governmental units | 12,746 | 889 | - | 8,878 |
| Due to other funds | - | 140,186 | - | - |
| Deferred revenue | - | 12,919 | - | 68,344 |
| Total Liabilities | 268,754 | 172,793 | - | 445,798 |
| Fund balances | | | | |
| Reserved for: | | | | |
| Trust and endowments | - | - | - | - |
| Encumbrances | 57,078 | - | - | - |
| Inventory | 389,944 | - | - | - |
| Subsequent year's expenditures | 555,177 | - | - | - |
| Specific projects | - | - | - | - |
| Unreserved: | | | | |
| Designated for capital projects | - | - | - | - |
| Undesignated | 280,484 | 16,132 | - | 549,950 |
| Total Fund Balances | 1,282,683 | 16,132 | - | 549,950 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 1,551,437 | \$ 188,925 | \$ - | \$ 995,748 |

CITY OF SAGINAW, MICHIGAN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2006

| | Special Revenue Funds | | | |
|--------------------------------------------|--------------------------|---------------------------------|--------------------------------------|--------------------------|
| | Drug Forfeiture | Andersen Center Operation | Urban Development Action Grant | Boat Launch Operation |
| <u>ASSETS</u> | | | | |
| Cash and cash equivalents | \$ - | \$ 68,882 | \$ 445,701 | \$ 23,456 |
| Accounts receivable, net of allowances | - | - | - | 349 |
| Accrued interest receivable | - | 953 | - | - |
| Due from other governmental units | - | - | - | - |
| Inventory | - | - | - | - |
| Property taxes receivable | - | - | - | - |
| Assessments receivable | - | - | - | - |
| Due from other funds | 9,824 | - | - | - |
| Restricted assets | | | | |
| Cash and cash equivalents | 208,943 | 27,039 | - | - |
| Investments | - | - | - | - |
| TOTAL ASSETS | <u><u>\$ 218,767</u></u> | <u><u>\$ 96,874</u></u> | <u><u>\$ 445,701</u></u> | <u><u>\$ 23,805</u></u> |
| <u>LIABILITIES AND FUND BALANCES</u> | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 1,259 | \$ 2,729 | \$ - | \$ 3,094 |
| Accrued wages payable | 4,894 | 894 | - | - |
| Due to other governmental units | 1,086 | 1,359 | - | - |
| Due to other funds | - | - | - | - |
| Deferred revenue | - | 300 | - | - |
| Total Liabilities | <u>7,239</u> | <u>5,282</u> | <u>-</u> | <u>3,094</u> |
| Fund balances | | | | |
| Reserved for: | | | | |
| Trust and endowments | - | - | - | - |
| Encumbrances | - | 78 | - | - |
| Inventory | - | - | - | - |
| Subsequent year's expenditures | 194,597 | - | - | 8,602 |
| Specific projects | 16,931 | 27,039 | 445,701 | - |
| Unreserved: | | | | |
| Designated for capital projects | - | - | - | - |
| Undesignated | - | 64,475 | - | 12,109 |
| Total Fund Balances | <u>211,528</u> | <u>91,592</u> | <u>445,701</u> | <u>20,711</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u><u>\$ 218,767</u></u> | <u><u>\$ 96,874</u></u> | <u><u>\$ 445,701</u></u> | <u><u>\$ 23,805</u></u> |

| Special Revenue Funds | | | | | | |
|-------------------------|-------------------------------|---------------------|-----------------|---------------------|---------------------|---------------------|
| Economic Development | Carl H. Ibershoff Trust | Total | Debt Service | Capital Projects | Permanent Fund | Totals |
| \$ 134,695 | \$ 2,807 | \$ 1,656,729 | \$ - | \$ 25,866 | \$ 188,648 | \$ 1,871,243 |
| - | - | 18,271 | - | 26 | - | 18,297 |
| - | - | 953 | - | - | - | 953 |
| 14,879 | - | 895,365 | - | 75,600 | - | 970,965 |
| - | - | 389,944 | - | - | - | 389,944 |
| - | - | 68,343 | - | - | - | 68,343 |
| - | - | 483,257 | - | - | - | 483,257 |
| - | - | 9,824 | - | - | - | 9,824 |
| - | - | 235,982 | - | - | - | 235,982 |
| - | - | - | - | - | 2,332,606 | 2,332,606 |
| <u>\$ 149,574</u> | <u>\$ 2,807</u> | <u>\$ 3,758,668</u> | <u>\$ -</u> | <u>\$ 101,492</u> | <u>\$ 2,521,254</u> | <u>\$ 6,381,414</u> |
| | | | | | | |
| \$ 29,429 | \$ - | \$ 622,498 | \$ - | \$ - | \$ 1,998 | \$ 624,496 |
| - | - | 81,985 | - | - | - | 81,985 |
| - | - | 24,958 | - | - | - | 24,958 |
| - | - | 186,390 | - | - | - | 186,390 |
| 91,710 | - | 193,298 | - | - | - | 193,298 |
| <u>121,139</u> | <u>-</u> | <u>1,109,129</u> | <u>-</u> | <u>-</u> | <u>1,998</u> | <u>1,111,127</u> |
| | | | | | | |
| - | 2,807 | 2,807 | - | - | 2,332,606 | 2,335,413 |
| - | - | 57,156 | - | - | - | 57,156 |
| - | - | 389,944 | - | - | - | 389,944 |
| - | - | 758,376 | - | - | - | 758,376 |
| 28,435 | - | 518,106 | - | - | - | 518,106 |
| - | - | - | - | 101,492 | - | 101,492 |
| - | - | 923,150 | - | - | 186,650 | 1,109,800 |
| <u>28,435</u> | <u>2,807</u> | <u>2,649,539</u> | <u>-</u> | <u>101,492</u> | <u>2,519,256</u> | <u>5,270,287</u> |
| <u>\$ 149,574</u> | <u>\$ 2,807</u> | <u>\$ 3,758,668</u> | <u>\$ -</u> | <u>\$ 101,492</u> | <u>\$ 2,521,254</u> | <u>\$ 6,381,414</u> |

CITY OF SAGINAW, MICHIGAN
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES
IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2006

| | Special Revenue Funds | | | |
|----------------------------------------|-----------------------|------------------|----------------------|-----------------------|
| | Major Streets | Local Streets | Municipal Streets | Rubbish Collection |
| Revenues | | | | |
| General operating property taxes | \$ - | \$ - | \$ - | \$ 2,036,825 |
| State of Michigan gas and weight taxes | 3,742,341 | 1,048,204 | - | - |
| Trunkline maintenance | 265,404 | - | - | - |
| Fees | - | - | - | 1,419,518 |
| Drug forfeitures | - | - | - | - |
| Grants and entitlements | 616,389 | - | - | - |
| Interest on deposits and investments | - | 63 | - | 3,485 |
| Sale of materials and services | 9,808 | 5,781 | - | 2,180 |
| Total Revenues | 4,633,942 | 1,054,048 | - | 3,462,008 |
| Expenditures | | | | |
| Current expenditures | | | | |
| Public safety | - | - | - | - |
| Highways and streets | 4,278,657 | 1,879,586 | - | - |
| Garbage and rubbish | - | - | - | 3,249,447 |
| Community services | - | - | - | - |
| Economic development | - | - | - | - |
| Total Expenditures | 4,278,657 | 1,879,586 | - | 3,249,447 |
| Revenues over (under) expenditures | 355,285 | (825,538) | - | 212,561 |
| Other financing sources (uses) | | | | |
| Transfers in | 195,226 | 828,467 | - | 30,730 |
| Transfers out | (633,241) | - | - | - |
| Total Other Financing Sources (Uses) | (438,015) | 828,467 | - | 30,730 |
| Net change in fund balances | (82,730) | 2,929 | - | 243,291 |
| Fund balances at beginning of year | 1,365,413 | 13,203 | - | 306,659 |
| FUND BALANCES AT END OF YEAR | \$ 1,282,683 | \$ 16,132 | \$ - | \$ 549,950 |

| Special Revenue Funds | | | | |
|-----------------------|-----------------------|-----------------------------------|--------------------|------------------------------|
| Marina Grant | Police Grants Funds | | | |
| | Community Policing | Auto Theft Prevention Grant | Police Training | Youth Initiative Grant |
| \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | 73,633 | 36,161 | 61,733 |
| - | 22 | - | - | - |
| - | 841 | 5,243 | - | 391 |
| - | 863 | 78,876 | 36,161 | 62,124 |
| - | 270,014 | 113,200 | 36,161 | 110,541 |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | 270,014 | 113,200 | 36,161 | 110,541 |
| - | (269,151) | (34,324) | - | (48,417) |
| - | 269,151 | 34,324 | - | 48,417 |
| - | - | - | - | - |
| - | 269,151 | 34,324 | - | 48,417 |
| - | - | - | - | - |
| - | - | - | - | - |
| \$ - | \$ - | \$ - | \$ - | \$ - |
| Continued | | | | |

CITY OF SAGINAW, MICHIGAN
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES
IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2006

| | Special Revenue Funds | | | |
|----------------------------------------|-----------------------|---------------------------------|--------------------------------------|--------------------------|
| | Drug Forfeiture | Andersen Center Operation | Urban Development Action Grant | Boat Launch Operation |
| Revenues | | | | |
| General operating property taxes | \$ - | \$ - | \$ - | \$ - |
| State of Michigan gas and weight taxes | - | - | - | - |
| Trunkline maintenance | - | - | - | - |
| Fees | - | 62,149 | - | 26,615 |
| Drug forfeitures | 39,494 | - | - | - |
| Grants and entitlements | 7,754 | 105,400 | - | - |
| Interest on deposits and investments | 11,360 | 311 | 20,926 | - |
| Sale of materials and services | - | 2,675 | - | - |
| Total Revenues | 58,608 | 170,535 | 20,926 | 26,615 |
| Expenditures | | | | |
| Current expenditures | | | | |
| Public safety | 191,449 | - | - | - |
| Highways and streets | - | - | - | - |
| Garbage and rubbish | - | - | - | - |
| Community service | - | 164,531 | - | - |
| Economic development | - | - | 77,441 | 25,287 |
| Total Expenditures | 191,449 | 164,531 | 77,441 | 25,287 |
| Revenues over (under) expenditures | (132,841) | 6,004 | (56,515) | 1,328 |
| Other financing sources (uses) | | | | |
| Transfers in | - | - | - | - |
| Transfers out | - | - | - | - |
| Total Other Financing Sources (Uses) | - | - | - | - |
| Net change in fund balances | (132,841) | 6,004 | (56,515) | 1,328 |
| Fund balances at beginning of year | 344,369 | 85,588 | 502,216 | 19,383 |
| FUND BALANCES AT END OF YEAR | \$ 211,528 | \$ 91,592 | \$ 445,701 | \$ 20,711 |

| <u>Special Revenue Funds</u> | | | | | | |
|------------------------------|--------------------------------|---------------------|---------------------|-------------------------|-----------------------|---------------------|
| <u>Economic Development</u> | <u>Carl H. Ibershoff Trust</u> | <u>Total</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Permanent Fund</u> | <u>Totals</u> |
| \$ - | \$ - | \$ 2,036,825 | \$ - | \$ - | \$ - | \$ 2,036,825 |
| - | - | 4,790,545 | - | - | - | 4,790,545 |
| - | - | 265,404 | - | - | - | 265,404 |
| - | - | 1,508,282 | - | - | - | 1,508,282 |
| - | - | 39,494 | - | - | - | 39,494 |
| 160,154 | - | 1,061,224 | - | 75,600 | - | 1,136,824 |
| - | - | 36,167 | - | - | - | 36,167 |
| - | - | 26,919 | - | - | 34,388 | 61,307 |
| <u>160,154</u> | <u>-</u> | <u>9,764,860</u> | <u>-</u> | <u>75,600</u> | <u>34,388</u> | <u>9,874,848</u> |
| - | - | 721,365 | - | - | - | 721,365 |
| - | - | 6,158,243 | - | - | - | 6,158,243 |
| - | - | 3,249,447 | - | - | - | 3,249,447 |
| - | - | 164,531 | - | - | 1,998 | 166,529 |
| <u>179,755</u> | <u>-</u> | <u>282,483</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>282,483</u> |
| <u>179,755</u> | <u>-</u> | <u>10,576,069</u> | <u>-</u> | <u>-</u> | <u>1,998</u> | <u>10,578,067</u> |
| <u>(19,601)</u> | <u>-</u> | <u>(811,209)</u> | <u>-</u> | <u>75,600</u> | <u>32,390</u> | <u>(703,219)</u> |
| - | - | 1,406,315 | - | - | - | 1,406,315 |
| <u>-</u> | <u>-</u> | <u>(633,241)</u> | <u>(39,241)</u> | <u>-</u> | <u>-</u> | <u>(672,482)</u> |
| <u>-</u> | <u>-</u> | <u>773,074</u> | <u>(39,241)</u> | <u>-</u> | <u>-</u> | <u>733,833</u> |
| (19,601) | - | (38,135) | (39,241) | 75,600 | 32,390 | 30,614 |
| <u>48,036</u> | <u>2,807</u> | <u>2,687,674</u> | <u>39,241</u> | <u>25,892</u> | <u>2,486,866</u> | <u>5,239,673</u> |
| <u>\$ 28,435</u> | <u>\$ 2,807</u> | <u>\$ 2,649,539</u> | <u>\$ -</u> | <u>\$ 101,492</u> | <u>\$ 2,519,256</u> | <u>\$ 5,270,287</u> |

CITY OF SAGINAW, MICHIGAN
MAJOR STREETS SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2006

| | Amended Budget | Actual | Variance Over (Under) |
|------------------------------------------|-------------------|--------------|-----------------------------|
| Revenues | | | |
| State of Michigan gas and weight taxes | \$ 4,163,914 | \$ 3,742,341 | \$ (421,573) |
| Trunkline maintenance | 200,000 | 265,404 | 65,404 |
| Grants and entitlements | 215,000 | 616,389 | 401,389 |
| Sale of materials and services | 100,000 | 9,808 | (90,192) |
| Total Revenues | 4,678,914 | 4,633,942 | (44,972) |
| Expenditures | | | |
| Current expenditures | | | |
| Routine maintenance of roads and streets | 1,586,428 | 1,881,443 | 295,015 |
| Routine maintenance of bridges | 162,434 | 110,980 | (51,454) |
| Winter maintenance of roads and streets | 519,447 | 452,165 | (67,282) |
| Traffic services maintenance | 815,208 | 557,841 | (257,367) |
| State trunkline maintenance | 207,496 | 188,560 | (18,936) |
| Administration | 1,004,966 | 512,071 | (492,895) |
| Capital outlay | | | |
| Construction and resurfacing of streets | 339,000 | 563,850 | 224,850 |
| Bridge reconstruction | 20,000 | 11,747 | (8,253) |
| Total Expenditures | 4,654,979 | 4,278,657 | (376,322) |
| Revenues over (under) expenditures | 23,935 | 355,285 | 331,350 |
| Other financing sources (uses) | | | |
| Transfers in | - | 195,226 | 195,226 |
| Transfers out | (423,052) | (633,241) | 210,189 |
| Total transfers | (423,052) | (438,015) | (14,963) |
| Net change in fund balances | \$ (399,117) | (82,730) | \$ 316,387 |
| Fund balance at beginning of year | | 1,365,413 | |
| FUND BALANCE AT END OF YEAR | | \$ 1,282,683 | |

CITY OF SAGINAW, MICHIGAN
LOCAL STREETS SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2006

| | Amended Budget | Actual | Variance Over (Under) |
|------------------------------------------|-------------------|--------------|-----------------------------|
| Revenues | | | |
| State of Michigan gas and weight taxes | \$ 1,109,454 | \$ 1,048,204 | \$ (61,250) |
| Interest on deposits and investments | 7,000 | 63 | (6,937) |
| Sale of materials and services | 23,000 | 5,781 | (17,219) |
| Total Revenues | 1,139,454 | 1,054,048 | (85,406) |
| Expenditures | | | |
| Current expenditures | | | |
| Routine maintenance of roads and streets | 750,659 | 1,029,664 | 279,005 |
| Winter maintenance of roads and streets | 197,546 | 246,032 | 48,486 |
| Traffic services maintenance | 178,884 | 379,436 | 200,552 |
| Administration | 435,417 | 224,454 | (210,963) |
| Total Expenditures | 1,562,506 | 1,879,586 | 317,080 |
| Revenues over (under) expenditures | (423,052) | (825,538) | (402,486) |
| Other financing sources (uses) | | | |
| Transfers in | 423,052 | 828,467 | 405,415 |
| Net change in fund balances | \$ - | 2,929 | \$ 2,929 |
| Fund balance at beginning of year | | 13,203 | |
| FUND BALANCE AT END OF YEAR | | \$ 16,132 | |

CITY OF SAGINAW, MICHIGAN
RUBBISH COLLECTION SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2006

| | Amended Budget | Actual | Variance Over (Under) |
|--------------------------------------|-------------------|--------------|-----------------------------|
| Revenues | | | |
| General operating property taxes | \$ 2,110,550 | \$ 2,036,825 | \$ (73,725) |
| Fees | 1,588,500 | 1,419,518 | (168,982) |
| Interest on deposits and investments | - | 3,485 | 3,485 |
| Sale of materials and services | 68,300 | 2,180 | (66,120) |
| Total Revenues | 3,767,350 | 3,462,008 | (305,342) |
| Expenditures | | | |
| Current expenditures | | | |
| Administration | 609,583 | 672,827 | 63,244 |
| Rubbish collection and disposal | 2,306,515 | 2,200,538 | (105,977) |
| Recycling and composting | 956,419 | 376,082 | (580,337) |
| Debt service | 15,088 | - | (15,088) |
| Total Expenditures | 3,887,605 | 3,249,447 | (638,158) |
| Revenues over (under) expenditures | (120,255) | 212,561 | 332,816 |
| Other financing sources (uses) | | | |
| Transfers in | 9,948 | 30,730 | 20,782 |
| Net change in fund balances | \$ (110,307) | 243,291 | \$ 353,598 |
| Fund balance at beginning of year | | 306,659 | |
| FUND BALANCE AT END OF YEAR | | \$ 549,950 | |

CITY OF SAGINAW, MICHIGAN
POLICE GRANTS FUNDS SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2006

| | Amended Budget | Actual | Variance Over (Under) |
|--------------------------------------|-------------------|-------------|-----------------------------|
| Revenues | | | |
| Grants and entitlements | \$ 258,332 | \$ 171,527 | \$ (86,805) |
| Interest on deposits and investments | - | 22 | 22 |
| Sale of materials and services | - | 6,475 | 6,475 |
| Total Revenues | 258,332 | 178,024 | (80,308) |
| Expenditures | | | |
| Current expenditures | | | |
| Public safety | 679,475 | 529,916 | (149,559) |
| Revenues (under) expenditures | (421,143) | (351,892) | 69,251 |
| Other financing sources | | | |
| Transfers in | 423,563 | 351,892 | (71,671) |
| Net change in fund balances | <u>\$ 2,420</u> | - | <u>\$ (2,420)</u> |
| Fund balances at beginning of year | | - | |
| FUND BALANCES AT END OF YEAR | | <u>\$ -</u> | |

CITY OF SAGINAW, MICHIGAN
DRUG FORFEITURE SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2006

| | Amended Budget | Actual | Variance Over (Under) |
|--------------------------------------|---------------------|-------------------|-----------------------------|
| Revenues | | | |
| Drug forfeitures | \$ 54,471 | \$ 39,494 | \$ (14,977) |
| Grants and entitlements | - | 7,754 | 7,754 |
| Interest on deposits and investments | 4,000 | 11,360 | 7,360 |
| Total Revenues | 58,471 | 58,608 | 137 |
| Expenditures | | | |
| Current expenditures | | | |
| Public safety | 247,312 | 191,449 | (55,863) |
| Net change in fund balances | <u>\$ (188,841)</u> | (132,841) | <u>\$ (56,000)</u> |
| Fund balance at beginning of year | | <u>344,369</u> | |
| FUND BALANCE AT END OF YEAR | | <u>\$ 211,528</u> | |

CITY OF SAGINAW, MICHIGAN
ANDERSEN CENTER OPERATION SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2006

| | Amended Budget | Actual | Variance Over (Under) |
|--------------------------------------|---------------------|------------------|-----------------------------|
| Revenues | | | |
| Fees | \$ 50,000 | \$ 62,149 | \$ 12,149 |
| Grants and entitlements | - | 105,400 | 105,400 |
| Interest on deposits and investments | - | 311 | 311 |
| Sale of materials and services | - | 2,675 | 2,675 |
| Total Revenues | 50,000 | 170,535 | 120,535 |
| Expenditures | | | |
| Current expenditures | | | |
| Community service | 164,913 | 164,531 | (382) |
| Net change in fund balances | <u>\$ (114,913)</u> | 6,004 | <u>\$ 120,917</u> |
| Fund balance at beginning of year | | <u>85,588</u> | |
| FUND BALANCE AT END OF YEAR | | <u>\$ 91,592</u> | |

CITY OF SAGINAW, MICHIGAN
BOAT LAUNCH OPERATION SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2006

| | Amended Budget | Actual | Variance Over (Under) |
|-----------------------------------|-------------------|------------------|-----------------------------|
| Revenues | | | |
| Fees | \$ 15,000 | \$ 26,615 | \$ 11,615 |
| Expenditures | | | |
| Current expenditures | | | |
| Community services | 24,010 | 25,287 | 1,277 |
| Net change in fund balances | <u>\$ (9,010)</u> | 1,328 | <u>\$ 10,338</u> |
| Fund balance at beginning of year | | <u>19,383</u> | |
| FUND BALANCE AT END OF YEAR | | <u>\$ 20,711</u> | |

CITY OF SAGINAW, MICHIGAN
ECONOMIC DEVELOPMENT SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2006

| | Amended Budget | Actual | Variance Over (Under) |
|------------------------------------|-------------------|------------------|-----------------------------|
| Revenues | | | |
| Grants and entitlements | \$ 258,332 | \$ 160,154 | \$ (98,178) |
| Expenditures | | | |
| Current expenditures | | | |
| Economic development | <u>679,475</u> | <u>179,755</u> | <u>(499,720)</u> |
| Revenues (under) expenditures | (421,143) | (19,601) | (401,542) |
| Other financing sources | | | |
| Transfers in | <u>423,563</u> | <u>-</u> | <u>(423,563)</u> |
| Net change in fund balances | <u>\$ 2,420</u> | (19,601) | <u>\$ (22,021)</u> |
| Fund balances at beginning of year | | <u>48,036</u> | |
| FUND BALANCES AT END OF YEAR | | <u>\$ 28,435</u> | |

NONMAJOR ENTERPRISE FUNDS

PARKING FUND

Revenues and expenses relating to the operation of the parking system are recorded in the Parking Fund. Assets of the parking system are also recorded here.

WAVE POOL FUND

The fund accounts for the operation, maintenance and debt service expenses of the wave pool complex.

CITY OF SAGINAW, MICHIGAN
COMBINING STATEMENT OF NET ASSETS
NONMAJOR ENTERPRISE FUNDS
June 30, 2006

| | <u>Parking</u> | <u>Wave Pool</u> | <u>Totals</u> |
|----------------------------------------|-------------------|---------------------|---------------------|
| <u>ASSETS</u> | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ - | \$ 89,488 | \$ 89,488 |
| Accounts receivable, net of allowances | 370,453 | - | 370,453 |
| Investments | - | 1,100 | 1,100 |
| | <u>370,453</u> | <u>90,588</u> | <u>461,041</u> |
| Total Current Assets | | | |
| Capital Assets | | | |
| Land | 201,203 | - | 201,203 |
| Buildings and improvements | 8,210,589 | 3,458,870 | 11,669,459 |
| Plant and office equipment | 585,370 | 69,139 | 654,509 |
| Less allowances for depreciation | (8,629,047) | (2,601,199) | (11,230,246) |
| | <u>368,115</u> | <u>926,810</u> | <u>1,294,925</u> |
| Net Capital Assets | | | |
| TOTAL ASSETS | <u>\$ 738,568</u> | <u>\$ 1,017,398</u> | <u>\$ 1,755,966</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | | |
| Current liabilities | | | |
| Due to other funds | \$ 561,463 | \$ - | \$ 561,463 |
| Accounts payable | 3,572 | - | 3,572 |
| Accrued wages payable | 2,488 | - | 2,488 |
| | <u>567,523</u> | <u>-</u> | <u>567,523</u> |
| Total Current Liabilities | | | |
| Long-term liabilities | | | |
| Accrued sick and vacation/PTO payable | 14,175 | - | 14,175 |
| | <u>581,698</u> | <u>-</u> | <u>581,698</u> |
| Total Liabilities | | | |
| Net assets | | | |
| Investment in capital assets | 368,115 | 926,810 | 1,294,925 |
| Unrestricted (deficit) | (211,245) | 90,588 | (120,657) |
| | <u>156,870</u> | <u>1,017,398</u> | <u>1,174,268</u> |
| Total Net Assets | | | |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 738,568</u> | <u>\$ 1,017,398</u> | <u>\$ 1,755,966</u> |

CITY OF SAGINAW, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - NONMAJOR ENTERPRISE FUNDS
For the Year Ended June 30, 2006

| | <u>Parking</u> | <u>Wave Pool</u> | <u>Totals</u> |
|----------------------------------|-------------------|---------------------|---------------------|
| Operating revenues | | | |
| Parking ramps | \$ 38,173 | \$ - | \$ 38,173 |
| Parking lots | 150,495 | - | 150,495 |
| Parking fines and tickets | 365,081 | - | 365,081 |
| | <u>553,749</u> | <u>-</u> | <u>553,749</u> |
| Total Operating Revenues | | | |
| Operating expenses | | | |
| Salaries | 76,396 | - | 76,396 |
| Employee benefits | 122,844 | - | 122,844 |
| Contractual services | 14,171 | - | 14,171 |
| Internal user charges | 40,196 | - | 40,196 |
| Insurance | 17,800 | - | 17,800 |
| Utilities | 41,596 | - | 41,596 |
| Supplies and materials | 10,142 | - | 10,142 |
| Depreciation | 51,437 | 141,771 | 193,208 |
| Other | 25,511 | - | 25,511 |
| | <u>400,093</u> | <u>141,771</u> | <u>541,864</u> |
| Total Operating Expenses | | | |
| Operating Income (Loss) | 153,656 | (141,771) | 11,885 |
| Nonoperating revenues (expenses) | | | |
| Interest on investments | - | 3,280 | 3,280 |
| | <u>-</u> | <u>3,280</u> | <u>3,280</u> |
| Change in Net Assets | 153,656 | (138,491) | 15,165 |
| Net assets at beginning of year | 3,214 | 1,155,889 | 1,159,103 |
| | <u>3,214</u> | <u>1,155,889</u> | <u>1,159,103</u> |
| NET ASSETS AT END OF YEAR | \$ 156,870 | \$ 1,017,398 | \$ 1,174,268 |
| | <u>\$ 156,870</u> | <u>\$ 1,017,398</u> | <u>\$ 1,174,268</u> |

CITY OF SAGINAW, MICHIGAN
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
For the Year Ended June 30, 2006

| | Parking | Wave Pool | Totals |
|----------------------------------------------------------------------------------------------------|------------|--------------|------------|
| Cash flows from operating activities: | | | |
| Receipts from customers | \$ 398,859 | \$ - | \$ 398,859 |
| Payments to suppliers | (110,236) | - | (110,236) |
| Payments to employees | (195,042) | - | (195,042) |
| Payments for interfund services used | (87,106) | - | (87,106) |
| Net Cash Provided By (Used For) Operating Activities | 6,475 | - | 6,475 |
| Cash flows from capital and related financing activities: | | | |
| Purchases of property and equipment | (7,100) | - | (7,100) |
| Cash flows from investing activities: | | | |
| Purchase of investment securities | - | (8) | (8) |
| Interest on investments | - | 3,280 | 3,280 |
| Net Cash Provided By Investing Activities | - | 3,272 | 3,272 |
| Increase (Decrease) in cash and cash equivalents | (625) | 3,272 | 2,647 |
| Cash and cash equivalents at beginning of year | 625 | 86,216 | 86,841 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | \$ - | \$ 89,488 | \$ 89,488 |
| Cash flows from operating activities: | | | |
| Operating income (loss) | \$ 153,656 | \$ (141,771) | \$ 11,885 |
| Adjustments to reconcile operating income to net cash provided by (used for) operating activities: | | | |
| Depreciation | 51,437 | 141,771 | 193,208 |
| (Increase) Decrease in assets: | | | |
| Accounts receivable | (154,890) | - | (154,890) |
| Due from other funds | 49 | - | 49 |
| Increase (Decrease) in liabilities: | | | |
| Due to other funds | (46,959) | - | (46,959) |
| Accounts payable | (1,016) | - | (1,016) |
| Accrued wages payable | 192 | - | 192 |
| Accrued sick and vacation/PTO payable | 4,006 | - | 4,006 |
| Net Cash Provided By (Used For) Operating Activities | \$ 6,475 | \$ - | \$ 6,475 |

INTERNAL SERVICE FUNDS

INFORMATION SERVICES FUND

Computer and information services are provided to City operating departments through this fund. The operation is financed by service charges levied against user departments and service contracts with other governmental agencies.

GIS FUND

This fund is used to account for the development and operations of a City-wide geographic information system. Money for the operation of this fund is supplied from contributions from other City funds.

MOTOR POOL FUND

This fund is responsible for acquiring and maintaining vehicles and other motorized equipment for use in general City operations. The costs of maintenance and replacement are recovered through rental rates charged to City operations using the vehicles and equipment.

CENTRAL STORES FUND

This operation inventories and supplies to operating departments office supplies, postage, small hand tools, parts and other products needed in everyday operations. All incoming, outgoing and inter-departmental mail is processed by this operation. Offset printing and other duplicating services are also provided to City departments. Costs are recovered through user charges.

RADIO FUND

This fund acquires, installs and maintains two-way radio equipment for use by City operating departments. Rental fees are charged to using departments to recover the cost of maintaining and replacing equipment.

SELF INSURANCE FUND

This fund was established by City Council to serve as a general insurance reserve for liabilities and claims not covered by commercial carriers or to pay deductibles. This fund accounts for the payment of insurance premiums, the distribution of insurance costs to other City funds and records the insurance claims liability.

WORKERS' COMPENSATION FUND

This fund accounts for all expenses, revenues and claims liability relating to the City's self-insured workers' compensation program. Premiums are charged to other City funds based on budgeted salaries.

INTERNAL SERVICE FUNDS

(continued)

PTO LIABILITY FUND

This fund was established to start funding the unfunded sick and vacation liability that has accrued to City employees over the years. Payoffs upon retirement for unused days will continue to be charged to other funds until this fund has sufficient dollars accumulated. Amounts are charged to other City funds based on the actual value of accrued sick and vacation/PTO days for each employee.

PUBLIC WORKS BUILDING FUND

This fund was established to account for all operating and capital expenses required to maintain the Public Works Service Center. Rent is charged to the departments occupying the building based on square footage.

CITY OF SAGINAW, MICHIGAN
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
June 30, 2006

| | Information Services | GIS | Motor Pool | Central Stores |
|---------------------------------------------------|-------------------------|-------------------|---------------------|-------------------|
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | \$ 236,397 | \$ 89,820 | \$ 125,880 | \$ 26,704 |
| Investments | - | - | - | - |
| Due from other funds | - | - | - | - |
| Accrued interest receivable | - | - | - | - |
| Due from other governments | - | 3,198 | - | - |
| Inventories | - | - | 153,645 | 1,215 |
| Prepaid insurance | - | - | - | - |
| Total Current Assets | 236,397 | 93,018 | 279,525 | 27,919 |
| Capital assets | | | | |
| Buildings and improvements | - | - | 189,146 | - |
| Plant and office equipment | 316,075 | 116,490 | 140,567 | 97,263 |
| Vehicular and radio equipment | - | - | 6,076,664 | - |
| Less allowances for depreciation | (264,021) | (77,992) | (5,003,712) | (97,263) |
| Net capital assets | 52,054 | 38,498 | 1,402,665 | - |
| TOTAL ASSETS | \$ 288,451 | \$ 131,516 | \$ 1,682,190 | \$ 27,919 |
| LIABILITIES AND NET ASSETS | | | | |
| Current liabilities | | | | |
| Due to other funds | \$ - | \$ - | \$ - | \$ - |
| Accounts payable | 20,403 | 3,184 | 13,404 | 422 |
| Accrued wages payable | 16,178 | 5,899 | 12,447 | - |
| Due to other governments | - | - | - | 295 |
| Current portion of long-term debt | - | - | 50,935 | - |
| Total Current Liabilities | 36,581 | 9,083 | 76,786 | 717 |
| Long-term liabilities | | | | |
| Workers' comp claims payable | - | - | - | - |
| Insurance claims payable | - | - | - | - |
| Accrued sick and vacation/PTO payable | 78,154 | 17,652 | 57,750 | - |
| Bonds and contracts payable | - | - | 104,585 | - |
| Total Long-term Liabilities | 78,154 | 17,652 | 162,335 | - |
| Total Liabilities | 114,735 | 26,735 | 239,121 | 717 |
| Net assets (deficits) | | | | |
| Investment in capital assets, net of related debt | 52,054 | 38,498 | 1,247,145 | - |
| Restricted for: | | | | |
| Sick and vacation | - | - | - | - |
| Unrestricted | 121,662 | 66,283 | 195,924 | 27,202 |
| Total Net Assets (Deficits) | 173,716 | 104,781 | 1,443,069 | 27,202 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 288,451 | \$ 131,516 | \$ 1,682,190 | \$ 27,919 |

| Radio | Self Insurance | Workers' Compensation | PTO Liability | Public Works Building | Totals |
|---------------------|-------------------|-----------------------|-------------------|-----------------------|---------------------|
| \$ 889,127 | \$ 279,526 | \$ 928,829 | \$ - | \$ 31,592 | \$ 2,607,875 |
| - | 307,049 | - | 663,183 | - | 970,232 |
| 329,272 | - | 763,026 | - | - | 1,092,298 |
| - | - | - | 6,728 | - | 6,728 |
| - | - | - | - | - | 3,198 |
| - | - | - | - | - | 154,860 |
| - | 36,319 | - | - | - | 36,319 |
| 1,218,399 | 622,894 | 1,691,855 | 669,911 | 31,592 | 4,871,510 |
| - | - | - | - | - | 189,146 |
| 3,435 | - | - | - | - | 673,830 |
| 1,149,404 | - | - | - | - | 7,226,068 |
| (1,036,995) | - | - | - | - | (6,479,983) |
| 115,844 | - | - | - | - | 1,609,061 |
| <u>\$ 1,334,243</u> | <u>\$ 622,894</u> | <u>\$ 1,691,855</u> | <u>\$ 669,911</u> | <u>\$ 31,592</u> | <u>\$ 6,480,571</u> |
| \$ - | \$ - | \$ - | \$ 414,154 | \$ - | \$ 414,154 |
| 1,052 | 57,166 | 24,401 | - | 17,657 | 137,689 |
| 205 | - | 426 | - | 2,741 | 37,896 |
| - | - | - | - | - | 295 |
| - | 70,000 | - | - | - | 120,935 |
| 1,257 | 127,166 | 24,827 | 414,154 | 20,398 | 710,969 |
| - | - | 1,873,087 | - | - | 1,873,087 |
| - | 522,090 | - | - | - | 522,090 |
| - | - | - | - | 10,095 | 163,651 |
| - | 150,000 | - | - | - | 254,585 |
| - | 672,090 | 1,873,087 | - | 10,095 | 2,813,413 |
| 1,257 | 799,256 | 1,897,914 | 414,154 | 30,493 | 3,524,382 |
| 115,844 | - | - | - | - | 1,453,541 |
| - | - | - | 255,757 | - | 255,757 |
| 1,217,142 | (176,362) | (206,059) | - | 1,099 | 1,246,891 |
| 1,332,986 | (176,362) | (206,059) | 255,757 | 1,099 | 2,956,189 |
| <u>\$ 1,334,243</u> | <u>\$ 622,894</u> | <u>\$ 1,691,855</u> | <u>\$ 669,911</u> | <u>\$ 31,592</u> | <u>\$ 6,480,571</u> |

CITY OF SAGINAW, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS - INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2006

| | Information Services | GIS | Motor Pool | Central Stores |
|---------------------------------------------------------|-------------------------|------------|---------------|-------------------|
| Operating revenues | | | | |
| Charges for services | \$ 1,326,001 | \$ 348,364 | \$ 1,888,141 | \$ 111,474 |
| Sale of materials and services | - | 16,595 | 2,336 | - |
| Total Operating Revenues | 1,326,001 | 364,959 | 1,890,477 | 111,474 |
| Operating expenses | | | | |
| Cost of goods sold | - | - | - | 67,021 |
| Salaries | 431,586 | 169,332 | 259,126 | 499 |
| Employee benefits | 330,306 | 72,187 | 403,200 | 20,561 |
| Contractual services | 400,140 | 59,656 | 146,256 | 6,898 |
| Internal user charges | 90,048 | 32,212 | 327,597 | 3,900 |
| Insurance | 15,823 | 4,297 | 94,978 | - |
| Utilities | 63,423 | - | 6,099 | - |
| Supplies and materials | 40,281 | 11,935 | 215,038 | 250 |
| Claims and judgments | - | - | - | - |
| Depreciation | 41,834 | 21,440 | 401,776 | - |
| Other | 14,916 | 2,616 | 8,832 | 674 |
| Net Operating Expenses | 1,428,357 | 373,675 | 1,862,902 | 99,803 |
| Operating Income (Loss) | (102,356) | (8,716) | 27,575 | 11,671 |
| Nonoperating revenues (expenses) | | | | |
| Interest on investments | 8,368 | - | - | - |
| Gain (loss) on disposal of equipment | - | - | (224) | - |
| Grants and entitlement | - | 3,198 | - | - |
| Interest expense on bonded indebtedness | - | - | (9,862) | - |
| Total Nonoperating Revenues (Expenses) | 8,368 | 3,198 | (10,086) | - |
| Net Income (Loss) Before Transfers | (93,988) | (5,518) | 17,489 | 11,671 |
| Transfers | | | | |
| Transfers in | - | - | - | - |
| Transfers out | - | - | - | - |
| Net Transfers | - | - | - | - |
| Change in Net Assets | (93,988) | (5,518) | 17,489 | 11,671 |
| Net assets (deficits) at beginning of year, as restated | 267,704 | 110,299 | 1,425,580 | 15,531 |
| NET ASSETS (DEFICITS) AT END OF YEAR | \$ 173,716 | \$ 104,781 | \$ 1,443,069 | \$ 27,202 |

| <u>Radio</u> | <u>Self Insurance</u> | <u>Workers' Compensation</u> | <u>PTO Liability</u> | <u>Public Works Building</u> | <u>Totals</u> |
|---------------------|-----------------------|------------------------------|----------------------|------------------------------|---------------------|
| \$ 192,645 | \$ 1,380,921 | \$ 1,194,654 | \$ - | \$ 317,048 | \$ 6,759,248 |
| - | - | - | - | - | 18,931 |
| <u>192,645</u> | <u>1,380,921</u> | <u>1,194,654</u> | <u>-</u> | <u>317,048</u> | <u>6,778,179</u> |
| - | - | - | - | - | 67,021 |
| 1,621 | - | 32,221 | - | 77,676 | 972,061 |
| 1,035 | - | 1,986 | - | 46,890 | 876,165 |
| 8,488 | 236,902 | 114,924 | - | 47,762 | 1,021,026 |
| 4,944 | - | - | - | - | 458,701 |
| 7,226 | 1,151,054 | - | - | 11,576 | 1,284,954 |
| - | - | 734 | - | 120,050 | 190,306 |
| 6,501 | - | 2,237 | - | 12,544 | 288,786 |
| - | (66,917) | 494,545 | - | - | 427,628 |
| 38,208 | - | - | - | - | 503,258 |
| 330 | - | 807 | - | 662 | 28,837 |
| <u>68,353</u> | <u>1,321,039</u> | <u>647,454</u> | <u>-</u> | <u>317,160</u> | <u>6,118,743</u> |
| <u>124,292</u> | <u>59,882</u> | <u>547,200</u> | <u>-</u> | <u>(112)</u> | <u>659,436</u> |
| 38,577 | 12,110 | 37,673 | 33,268 | - | 129,996 |
| - | - | - | - | - | (224) |
| - | - | - | - | - | 3,198 |
| - | (21,000) | - | - | - | (30,862) |
| <u>38,577</u> | <u>(8,890)</u> | <u>37,673</u> | <u>33,268</u> | <u>-</u> | <u>102,108</u> |
| <u>162,869</u> | <u>50,992</u> | <u>584,873</u> | <u>33,268</u> | <u>(112)</u> | <u>761,544</u> |
| - | 39,241 | - | - | - | 39,241 |
| - | - | - | (456,950) | - | (456,950) |
| - | 39,241 | - | (456,950) | - | (417,709) |
| 162,869 | 90,233 | 584,873 | (423,682) | (112) | 343,835 |
| <u>1,170,117</u> | <u>(266,595)</u> | <u>(790,932)</u> | <u>679,439</u> | <u>1,211</u> | <u>2,612,354</u> |
| <u>\$ 1,332,986</u> | <u>\$ (176,362)</u> | <u>\$ (206,059)</u> | <u>\$ 255,757</u> | <u>\$ 1,099</u> | <u>\$ 2,956,189</u> |

CITY OF SAGINAW, MICHIGAN
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2006

| | Information Services | GIS | Motor Pool | Central Stores |
|-------------------------------------------------------------------------------------------------------|-------------------------|------------------|-------------------|-------------------|
| Cash flows from operating activities: | | | | |
| Receipts from interfund services provided | \$ 1,328,095 | \$ 362,477 | \$ 1,892,632 | \$ 112,321 |
| Payments to suppliers | (516,604) | (75,858) | (423,966) | (72,876) |
| Payments to employees | (786,888) | (236,938) | (724,720) | (24,653) |
| Payments for interfund services used | (89,987) | (32,212) | (327,597) | (3,900) |
| Net Cash Provided By (Used For) Operating Activities | (65,384) | 17,469 | 416,349 | 10,892 |
| Cash flows from noncapital financing activities: | | | | |
| Grants and entitlements | - | 3,198 | - | - |
| Transfers in | - | - | - | - |
| Transfers out | - | - | - | - |
| Net Cash Provided By (Used For) Noncapital Financing Activities | - | 3,198 | - | - |
| Cash flows from capital and related financing activities: | | | | |
| Purchases of property and equipment | - | (9,291) | (424,711) | - |
| Proceeds from sale of equipment | - | - | 10,414 | - |
| Proceeds from installment contracts | - | - | 166,106 | - |
| Principal paid on long-term debt | - | - | (51,276) | - |
| Interest paid on long-term debt | - | - | (9,862) | - |
| Net Cash Provided By (Used For) Capital and Related Financing Activities | - | (9,291) | (309,329) | - |
| Cash flows from investing activities: | | | | |
| Proceeds from sale and maturities of investment securities | - | - | - | - |
| Interest on investments | 8,368 | - | - | - |
| Net Cash Provided By (Used For) Investing Activities | 8,368 | - | - | - |
| Increase (Decrease) in cash and cash equivalents | (57,016) | 11,376 | 107,020 | 10,892 |
| Cash and cash equivalents at beginning of year | 293,413 | 78,444 | 18,860 | 15,812 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 236,397</u> | <u>\$ 89,820</u> | <u>\$ 125,880</u> | <u>\$ 26,704</u> |
| Cash flows from operating activities: | | | | |
| Operating income (loss) | \$ (102,356) | \$ (8,716) | \$ 27,575 | \$ 11,671 |
| Adjustments to reconcile operating income to net cash provided by (used for) operating activities: | | | | |
| Depreciation | 41,834 | 21,440 | 401,776 | - |
| Changes in assets and liabilities: | | | | |
| Due from other funds | 61 | - | 61 | - |
| Accounts receivable | 2,094 | (2,482) | 2,094 | 847 |
| Inventories | - | - | 55,285 | 3,528 |
| Prepaid insurance | - | - | - | - |
| Due to other funds | - | - | - | - |
| Accounts payable | 17,979 | 2,646 | (8,048) | (1,561) |
| Accrued wages payable | 4,055 | 1,566 | (5,050) | (542) |
| Due to other governments | - | - | - | 120 |
| Claims payable | - | - | - | - |
| Accrued sick and vacation/PTO payable | (29,051) | 3,015 | (57,344) | (3,171) |
| Net Cash Provided By (Used For) Operating Activities | <u>\$ (65,384)</u> | <u>\$ 17,469</u> | <u>\$ 416,349</u> | <u>\$ 10,892</u> |

| Radio | Self Insurance | Workers' Compensation | PTO Liability | Public Works Building | Totals |
|------------|----------------|-----------------------|---------------|-----------------------|--------------|
| \$ 718,325 | \$ 1,388,990 | \$ 1,653,176 | \$ 423,682 | \$ 317,456 | \$ 8,197,154 |
| (24,356) | (1,322,241) | (1,116,093) | - | (179,900) | (3,731,894) |
| (4,017) | - | (34,544) | - | (124,818) | (1,936,578) |
| (4,944) | (4,302) | - | - | - | (462,942) |
| 685,008 | 62,447 | 502,539 | 423,682 | 12,738 | 2,065,740 |
| - | - | - | - | - | 3,198 |
| - | 39,241 | - | - | - | 39,241 |
| - | - | - | (456,950) | - | (456,950) |
| - | 39,241 | - | (456,950) | - | (414,511) |
| - | - | - | - | - | (434,002) |
| - | - | - | - | - | 10,414 |
| - | - | - | - | - | 166,106 |
| - | (65,000) | - | - | - | (116,276) |
| - | (21,000) | - | - | - | (30,862) |
| - | (86,000) | - | - | - | (404,620) |
| - | 22 | - | - | - | 22 |
| 38,577 | 12,110 | 37,673 | 33,268 | - | 129,996 |
| 38,577 | 12,132 | 37,673 | 33,268 | - | 130,018 |
| 723,585 | 27,820 | 540,212 | - | 12,738 | 1,376,627 |
| 165,542 | 251,706 | 388,617 | - | 18,854 | 1,231,248 |
| \$ 889,127 | \$ 279,526 | \$ 928,829 | \$ - | \$ 31,592 | \$ 2,607,875 |
| \$ 124,292 | \$ 59,882 | \$ 547,200 | \$ - | \$ (112) | \$ 659,436 |
| 38,208 | - | - | - | - | 503,258 |
| 525,662 | - | 458,522 | - | 31 | 984,337 |
| 18 | 8,069 | - | 13,928 | 377 | 24,945 |
| - | - | - | - | - | 58,813 |
| - | 45,339 | - | - | - | 45,339 |
| - | (4,302) | - | 409,754 | - | 405,452 |
| (1,811) | 35,020 | 14,406 | - | 12,694 | 71,325 |
| 169 | - | (337) | - | (318) | (457) |
| (1,530) | - | - | - | - | (1,410) |
| - | (81,561) | (517,252) | - | - | (598,813) |
| - | - | - | - | 66 | (86,485) |
| \$ 685,008 | \$ 62,447 | \$ 502,539 | \$ 423,682 | \$ 12,738 | \$ 2,065,740 |

FIDUCIARY FUNDS

PUBLIC EMPLOYEE HEALTHCARE FUND

This fund was established to start funding the unfunded health insurance premiums that are fully paid for all City retirees. The unfunded liability is estimated at \$115 million.

POLICEMEN AND FIREMEN PENSION FUND

Assets accumulated for the payment of retirement benefits for City Police and Fire personnel are recorded in this fund. Benefits for retired members are paid from this fund and active members contribute to the pension system through payroll deductions. The City contributes to the fund by an annual appropriation from the General Fund which is determined and set by an annual actuarial valuation.

AGENCY FUNDS

These funds are used to account for property taxes collected by the City for other units of government until the tax proceeds are remitted to them. Funds retained from contractors during construction projects and employee and employer payroll withholdings and benefits are also recorded here.

CITY OF SAGINAW, MICHIGAN
EMPLOYEE PENSION AND OTHER BENEFITS TRUST FUNDS
COMBINING STATEMENT OF PLAN NET ASSETS
June 30, 2006

| | Public Employee Healthcare | Policemen and Firemen Pension | Total |
|---------------------------------------------------|-------------------------------|----------------------------------|--------------------|
| <u>ASSETS</u> | | | |
| Cash and cash equivalents | \$ 352,015 | \$ 4,356,978 | \$ 4,708,993 |
| Investments, at market value | | | |
| Money market funds | 1,203,664 | - | 1,203,664 |
| U.S. Government agencies | - | 22,205,959 | 22,205,959 |
| Corporate and foreign bonds | - | 16,544,924 | 16,544,924 |
| Common equity securities | - | 47,673,778 | 47,673,778 |
| Equity mutual funds | - | 30,498,583 | 30,498,583 |
| Other | - | 2,081,628 | 2,081,628 |
| Total Investments | 1,203,664 | 119,004,872 | 120,208,536 |
| Accrued interest receivable | - | 435,841 | 435,841 |
| Total Assets | 1,555,679 | 123,797,691 | 125,353,370 |
| <u>LIABILITIES</u> | | | |
| Accounts payable | - | 29,581 | 29,581 |
| Accrued wages payable | - | 409,809 | 409,809 |
| Total Liabilities | - | 439,390 | 439,390 |
| Net Assets Held In Trust for Pension Benefits | \$ 1,555,679 | \$ 123,358,301 | \$ 124,913,980 |

A schedule of funding progress for the Policemen and Firemen Pension plan is presented in on page 56.

CITY OF SAGINAW, MICHIGAN
EMPLOYEE PENSION AND OTHER BENEFITS TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS
For the Year Ended June 30, 2006

| | Public Employee Healthcare | Policemen and Firemen Pension | Total |
|-----------------------------------------------|-------------------------------|----------------------------------|----------------|
| <u>Additions</u> | | | |
| Contributions: | | | |
| Employer | \$ 300,000 | \$ 3,626,717 | \$ 3,926,717 |
| Plan members | - | 1,078,002 | 1,078,002 |
| Total contributions | 300,000 | 4,704,719 | 5,004,719 |
| Investment income (loss): | | | |
| Interest | 25,403 | 2,474,022 | 2,499,425 |
| Dividends | - | 3,210,183 | 3,210,183 |
| Mutual fund rebates | - | 30,570 | 30,570 |
| Net appreciation in fair value of investments | 136,802 | 3,207,111 | 3,343,913 |
| Investment expenses | - | (436,088) | (436,088) |
| Total investment income | 162,205 | 8,485,798 | 8,648,003 |
| Total Additions | 462,205 | 13,190,517 | 13,652,722 |
| <u>Deductions</u> | | | |
| Police pension benefits | - | 6,266,889 | 6,266,889 |
| Fire pension benefits | - | 5,154,310 | 5,154,310 |
| Administrative expenses | 131,469 | 237,160 | 368,629 |
| Refunds of member contributions | - | 113,820 | 113,820 |
| Total Deductions | 131,469 | 11,772,179 | 11,903,648 |
| Net increase for the year | 330,736 | 1,418,338 | 1,749,074 |
| Net Assets Held in Trust for Pension Benefits | | | |
| Beginning of year | 1,224,943 | 121,939,963 | 123,164,906 |
| End of year | \$ 1,555,679 | \$ 123,358,301 | \$ 124,913,980 |

CITY OF SAGINAW, MICHIGAN
COMBINING BALANCE SHEET
AGENCY FUNDS
June 30, 2006

| | Intermediate School Tax Collection | Saginaw County Tax Collection | School District Tax Collection | State Education Tax Collection | Delta College Tax Collection |
|--------------------------------------------------|---------------------------------------------|----------------------------------------|-----------------------------------------|-----------------------------------------|---------------------------------------|
| <u>ASSETS</u> | | | | | |
| Cash and cash equivalents | \$ 37,279 | \$ 80,332 | \$ 105,885 | \$ 36,352 | \$ 42,788 |
| Accounts receivable | - | 57,388 | - | - | - |
| Prepaid insurance | - | - | - | - | - |
| Taxes receivable for other governmental units | 53,106 | 214,998 | 491,649 | 152,979 | 58,998 |
| TOTAL ASSETS | \$ 90,385 | \$ 352,718 | \$ 597,534 | \$ 189,331 | \$ 101,786 |
| <u>LIABILITIES</u> | | | | | |
| Accounts payable | \$ - | \$ - | \$ - | \$ - | \$ - |
| Due to other governmental units | 90,385 | 352,718 | 597,534 | 189,331 | 101,786 |
| Claims payable | - | - | - | - | - |
| Other current liabilities | - | - | - | - | - |
| TOTAL LIABILITIES | \$ 90,385 | \$ 352,718 | \$ 597,534 | \$ 189,331 | \$ 101,786 |

| Public Libraries Tax Collection | Saginaw Transit Tax Collection | Undistributed Tax Collection | Contractor's Retainage | Employee Benefits | Housing Commission | Totals |
|------------------------------------------|-----------------------------------------|------------------------------------|---------------------------|----------------------|-----------------------|---------------------|
| \$ 72,667 | \$ 27,919 | \$ - | \$ 3,010 | \$ 1,397,417 | \$ - | \$ 1,803,649 |
| - | - | 130,727 | - | 125 | 7,622 | 195,862 |
| - | - | - | - | 211,449 | - | 211,449 |
| 101,395 | 67,736 | - | - | - | - | 1,140,861 |
| <u>\$ 174,062</u> | <u>\$ 95,655</u> | <u>\$ 130,727</u> | <u>\$ 3,010</u> | <u>\$ 1,608,991</u> | <u>\$ 7,622</u> | <u>\$ 3,351,821</u> |
| | | | | | | |
| \$ - | \$ - | \$ 5 | \$ 3,010 | \$ 860,447 | \$ 199 | \$ 863,661 |
| 174,062 | 95,655 | 130,722 | - | - | 7,423 | 1,739,616 |
| - | - | - | - | 742,349 | - | 742,349 |
| - | - | - | - | 6,195 | - | 6,195 |
| <u>\$ 174,062</u> | <u>\$ 95,655</u> | <u>\$ 130,727</u> | <u>\$ 3,010</u> | <u>\$ 1,608,991</u> | <u>\$ 7,622</u> | <u>\$ 3,351,821</u> |

COMPONENT UNITS

CITY OF SAGINAW, MICHIGAN
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
TIFA COMPONENT UNITS
June 30, 2006

| | Saginaw Division TIFA | Morley TIFA | Total Governmental Funds | Adjustments | Statement of Net Assets |
|------------------------------------------------|-----------------------------|-------------------------|--------------------------------|-------------------------|----------------------------|
| <u>ASSETS</u> | | | | | |
| Cash and cash equivalents | \$ 5,155 | \$ 26,120 | \$ 31,275 | \$ - | \$ 31,275 |
| Property taxes receivable | 31 | 13 | 44 | - | 44 |
| TOTAL ASSETS | <u><u>\$ 5,186</u></u> | <u><u>\$ 26,133</u></u> | <u><u>\$ 31,319</u></u> | <u><u>\$ -</u></u> | <u><u>31,319</u></u> |
| <u>LIABILITIES</u> | | | | | |
| Deferred revenue | \$ 31 | \$ 13 | \$ 44 | \$ (44) | - |
| <u>FUND BALANCES/NET ASSETS</u> | | | | | |
| Reserved for: | | | | | |
| TIFA/LDFA projects | <u>5,155</u> | <u>26,120</u> | <u>31,275</u> | <u>(31,275)</u> | <u>-</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u><u>\$ 5,186</u></u> | <u><u>\$ 26,133</u></u> | <u><u>\$ 31,319</u></u> | | |
| NET ASSETS, UNRESTRICTED | | | | <u><u>\$ 31,319</u></u> | <u><u>\$ 31,319</u></u> |

CITY OF SAGINAW, MICHIGAN
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
TIFA COMPONENT UNITS
For the Year Ended June 30, 2006

| | <u>Saginaw Division TIFA</u> | <u>Morley TIFA</u> | <u>Total Governmental Funds</u> | <u>Adjustments</u> | <u>Statement of Activities</u> |
|--------------------------------------------------|--------------------------------------|------------------------|-----------------------------------------|--------------------|------------------------------------|
| Revenues | | | | | |
| General operating property taxes | \$ 519 | \$ - | \$ 519 | \$ (519) | \$ - |
| Fund balances/net assets at beginning of year | <u>4,636</u> | <u>26,120</u> | <u>30,756</u> | <u>563</u> | <u>31,319</u> |
| FUND BALANCES/NET ASSETS AT END OF YEAR | <u>\$ 5,155</u> | <u>\$ 26,120</u> | <u>\$ 31,275</u> | <u>\$ 44</u> | <u>\$ 31,319</u> |

CITY OF SAGINAW, MICHIGAN
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
DDA COMPONENT UNITS
June 30, 2006

| | Commerce Center DDA | Sils Island DDA | Downtown Development Authority |
|--------------------------------------------|---------------------------|-----------------------|--------------------------------------|
| <u>ASSETS</u> | | | |
| Cash and cash equivalents | \$ 33,446 | \$ 15,780 | \$ 177,397 |
| Property taxes receivable | 200 | 1,058 | 25,529 |
| TOTAL ASSETS | <u>\$ 33,646</u> | <u>\$ 16,838</u> | <u>\$ 202,926</u> |
| <u>LIABILITIES</u> | | | |
| Accounts payable | \$ - | \$ - | \$ 175 |
| Deferred revenue | 200 | 1,058 | 25,529 |
| Total Liabilities | 200 | 1,058 | 25,704 |
| <u>FUND BALANCES/NET ASSETS</u> | | | |
| Reserved for: | | | |
| Specific Projects | 33,446 | 15,780 | 177,222 |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 33,646</u> | <u>\$ 16,838</u> | <u>\$ 202,926</u> |

| Total Governmental Funds | Adjustments | Statement of Net Assets |
|--------------------------------|-------------|----------------------------|
| \$ 226,623 | \$ - | \$ 226,623 |
| 26,787 | - | 26,787 |
| <u>\$ 253,410</u> | <u>\$ -</u> | <u>253,410</u> |

| | | |
|-------------------|-----------|-----|
| \$ 175 | \$ - | 175 |
| 26,787 | (26,787) | - |
| 26,962 | (26,787) | 175 |
| 226,448 | (226,448) | - |
| <u>\$ 253,410</u> | | |

| | | |
|--------------------------|-------------------|-------------------|
| NET ASSETS, UNRESTRICTED | <u>\$ 253,235</u> | <u>\$ 253,235</u> |
|--------------------------|-------------------|-------------------|

CITY OF SAGINAW, MICHIGAN
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
DDA COMPONENT UNITS
For the Year Ended June 30, 2006

| | Commerce Center DDA | Sils Island DDA | Downtown Development Authority |
|-----------------------------------------------|---------------------------|-----------------------|--------------------------------------|
| Revenues | | | |
| General operating property taxes | \$ 29,194 | \$ 2,844 | \$ 10,684 |
| Fees and loan repayments | - | - | 122,348 |
| Interest on loans and investments | - | - | 3,921 |
| Total Revenues | 29,194 | 2,844 | 136,953 |
| Expenditures/Expenses | | | |
| Current expenditures/expenses | | | |
| Administration | - | - | 34,839 |
| Tax increment payments | 3,072 | - | 25,355 |
| Total Expenditures/Expenses | 3,072 | - | 60,194 |
| Net change in fund balances/net assets | 26,122 | 2,844 | 76,759 |
| Fund balances/net assets at beginning of year | 7,324 | 12,936 | 100,463 |
| FUND BALANCES/NET ASSETS AT END OF YEAR | \$ 33,446 | \$ 15,780 | \$ 177,222 |

| <u>Total Governmental Funds</u> | <u>Adjustments</u> | <u>Statement of Activities</u> |
|-----------------------------------------|--------------------|------------------------------------|
| \$ 42,722 | \$ 3,951 | \$ 46,673 |
| 122,348 | (81,250) | 41,098 |
| <u>3,921</u> | <u>-</u> | <u>3,921</u> |
| <u>168,991</u> | <u>(77,299)</u> | <u>91,692</u> |
| 34,839 | - | 34,839 |
| <u>28,427</u> | <u>-</u> | <u>28,427</u> |
| <u>63,266</u> | <u>-</u> | <u>63,266</u> |
| 105,725 | (77,299) | 28,426 |
| <u>120,723</u> | <u>104,086</u> | <u>224,809</u> |
| <u>\$ 226,448</u> | <u>\$ 26,787</u> | <u>\$ 253,235</u> |

CITY OF SAGINAW, MICHIGAN
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
LDFA COMPONENT UNITS
June 30, 2006

| | Thomson LDFA | Sexton LDFA | Baker Perkins LDFA |
|----------------------------------------|---------------------|-------------------|--------------------------|
| <u>ASSETS</u> | | | |
| Cash and cash equivalents | \$ 2,413,160 | \$ 372,374 | \$ 127,334 |
| Property taxes receivable | 12 | - | 68,850 |
| Accrued interest receivable | 6,532 | - | - |
| | | | |
| TOTAL ASSETS | <u>\$ 2,419,704</u> | <u>\$ 372,374</u> | <u>\$ 196,184</u> |
| | | | |
| <u>LIABILITIES</u> | | | |
| Deferred revenue | \$ 12 | \$ - | \$ 68,850 |
| | | | |
| <u>FUND BALANCES/NET ASSETS</u> | | | |
| Reserved for: | | | |
| TIFA/LDFA projects | <u>2,419,692</u> | <u>372,374</u> | <u>127,334</u> |
| | | | |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 2,419,704</u> | <u>\$ 372,374</u> | <u>\$ 196,184</u> |

| Treasure Island LDFA | Saginaw Machine Systems LDFA | Saginaw Tool and Die LDFA | Total Governmental Funds | Adjustments | Statement of Net Assets |
|----------------------------|---------------------------------------|------------------------------------|--------------------------------|---------------------|----------------------------|
| \$ 41,239 | \$ 4,513 | \$ 13,590 | \$ 2,972,210 | \$ - | \$ 2,972,210 |
| 3 | - | - | 68,865 | - | 68,865 |
| - | - | - | 6,532 | - | 6,532 |
| <u>\$ 41,242</u> | <u>\$ 4,513</u> | <u>\$ 13,590</u> | <u>\$ 3,047,607</u> | <u>\$ -</u> | <u>3,047,607</u> |
| | | | | | |
| \$ 3 | \$ - | \$ - | \$ 68,865 | \$ (68,865) | - |
| | | | | | |
| <u>41,239</u> | <u>4,513</u> | <u>13,590</u> | <u>2,978,742</u> | <u>(2,978,742)</u> | <u>-</u> |
| | | | | | |
| <u>\$ 41,242</u> | <u>\$ 4,513</u> | <u>\$ 13,590</u> | <u>\$ 3,047,607</u> | | |
| NET ASSETS, UNRESTRICTED | | | | <u>\$ 3,047,607</u> | <u>\$ 3,047,607</u> |

CITY OF SAGINAW, MICHIGAN
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
LDFA COMPONENT UNITS
For the Year Ended June 30, 2006

| | Thomson LDFA | Sexton LDFA | Baker Perkins LDFA |
|---------------------------------------------------------|-----------------|----------------|--------------------------|
| Revenues | | | |
| General operating property taxes | \$ 141,718 | \$ 28,979 | \$ 48,784 |
| Interest on loans and investments | 33,660 | - | - |
| Total Revenues | 175,378 | 28,979 | 48,784 |
| Expenditures/Expenses | | | |
| Current | | | |
| Administration | - | - | 3,270 |
| Tax increment payments | - | - | 447,406 |
| Total Expenditures/Expenses | - | - | 450,676 |
| Net change in fund balances/net assets | 175,378 | 28,979 | (401,892) |
| Fund balances/net assets (deficit) at beginning of year | 2,244,314 | 343,395 | 529,226 |
| FUND BALANCES/NET ASSETS AT END OF YEAR | \$ 2,419,692 | \$ 372,374 | \$ 127,334 |

| Treasure Island LDFA | Saginaw Machine Systems LDFA | Saginaw Tool and Die LDFA | Total Governmental Funds | Adjustments | Statement of Activities |
|----------------------------|---------------------------------------|------------------------------------|--------------------------------|------------------|----------------------------|
| \$ 6,422 | \$ - | \$ 26,834 | \$ 252,737 | \$ (4,957) | \$ 247,780 |
| - | - | - | 33,660 | - | 33,660 |
| 6,422 | - | 26,834 | 286,397 | (4,957) | 281,440 |
| - | - | - | 3,270 | - | 3,270 |
| - | - | - | 447,406 | - | 447,406 |
| - | - | - | 450,676 | - | 450,676 |
| 6,422 | - | 26,834 | (164,279) | (4,957) | (169,236) |
| 34,817 | 4,513 | (13,244) | 3,143,021 | 73,822 | 3,216,843 |
| <u>\$ 41,239</u> | <u>\$ 4,513</u> | <u>\$ 13,590</u> | <u>\$ 2,978,742</u> | <u>\$ 68,865</u> | <u>\$ 3,047,607</u> |

CITY OF SAGINAW, MICHIGAN
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
BROWNFIELD COMPONENT UNIT
June 30, 2006

| | Brownfield Authority SRRF | Adjustments | Statement of Net Assets |
|--------------------------------------------|---------------------------------|---------------|----------------------------|
| <u>ASSETS</u> | | | |
| Cash and cash equivalents | \$ 5,469 | \$ - | \$ 5,469 |
| Due from other governmental units | 91,241 | - | 91,241 |
| Property taxes receivable | 254 | - | 254 |
| TOTAL ASSETS | \$ 96,964 | \$ - | 96,964 |
| <u>LIABILITIES</u> | | | |
| Deferred revenue | \$ 254 | \$ (254) | - |
| <u>FUND BALANCES/NET ASSETS</u> | | | |
| Reserved for: | | | |
| Specific Projects | 96,710 | (96,710) | - |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 96,964 | | |
| NET ASSETS, UNRESTRICTED | | \$ 96,964 | \$ 96,964 |

CITY OF SAGINAW, MICHIGAN
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
BROWNFIELD COMPONENT UNIT
For the Year Ended June 30, 2006

| | Brownfield Authority SRRF | Adjustments | Statement of Activities |
|-----------------------------------------------|---------------------------------|---------------|----------------------------|
| Revenues | | | |
| General operating property taxes | \$ 27,949 | \$ (77) | \$ 27,872 |
| Grants and entitlements | <u>68,061</u> | <u>-</u> | <u>68,061</u> |
| Total Revenues | 96,010 | (77) | 95,933 |
| Expenditures/Expenses | | | |
| Current | | | |
| Grant expenditures/expenses | <u>68,061</u> | <u>-</u> | <u>68,061</u> |
| Net change in fund balances/net assets | 27,949 | (77) | 27,872 |
| Fund balances/net assets at beginning of year | <u>68,761</u> | <u>331</u> | <u>69,092</u> |
| FUND BALANCES/NET ASSETS AT END OF YEAR | <u>\$ 96,710</u> | <u>\$ 254</u> | <u>\$ 96,964</u> |

REVISED
Feb. 2, 2007

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|-----------------------------------------------------------|-------------------|
| Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Unit Name City of Saginaw | County Saginaw |
| Fiscal Year End June 30, 2006 | Opinion Date December 15, 2006 | Date Audit Report Submitted to State December 27, 2006 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

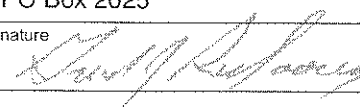
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☒ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☒ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☐ ☒ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | |
|------------------------------------------------------------------------------------------------------------------|------------------------------------------|--------------------------------------------|------------------------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | |
| Financial Statements | <input checked="" type="checkbox"/> | Already sent | |
| The letter of Comments and Recommendations | <input checked="" type="checkbox"/> | Will be forwarded Included | |
| Other (Describe) | <input type="checkbox"/> | | |
| Certified Public Accountant (Firm Name) Rehmann Robson | | Telephone Number 989 799-9580 | |
| Street Address 5800 Gratiot, PO Box 2025 | | City Saginaw | State MI |
| Zip 48605 | | | |
| Authorizing CPA Signature  | Printed Name Gerald J. Desloover, CPA | | License Number 1101007126 |



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

December 15, 2006

Honorable Mayor and
Members of City Council
City of Saginaw
Saginaw, MI 48601

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the ***City of Saginaw, Michigan***, as of and for the year ended June 30, 2006, which collectively comprise the ***City of Saginaw, Michigan's*** basic financial statements and have issued our report thereon dated December 15, 2006. The report on the aggregate discretely presented component units was qualified as a result of the exclusion of the Saginaw Economic Development Corporation, which is required to be included in the reporting entity for the ***City of Saginaw, Michigan***, under general accepting accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the ***City of Saginaw, Michigan's*** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the ***City of Saginaw, Michigan's*** ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2003-1, 2004-1 through 2004-10, 2005-1 through 2005-5, and 2006-1 through 2006-7.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2003-1, 2004-1 through 2004-7, 2005-1 and 2005-5 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *City of Saginaw, Michigan's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. Of the reportable conditions described above, we consider items 2004-7 and 2006-7 to be instances of noncompliance.

This report is intended solely for the information and use of City management, the City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

City of Saginaw, Michigan
Schedule of Findings and Questioned Costs
June 30, 2006

| | |
|--------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2003-1 | Reportable Condition Considered to be a Material Weakness |
| Criteria: | A strong system of internal controls mandates that general ledger account balances are properly reconciled to a subsidiary ledger or other adequate supportive documentation on a periodic basis. |
| Condition: | The City does not reconcile their general ledger accounts, such as cash, income tax revenue, and receivables, to supportive documentation during the year, which requires many significant adjustments to properly state the accounts at year end. The lack of reconciliations also affects the proper reporting of expenditures under the City's various grant agreements. |
| Questioned Costs: | None. |
| Effect: | Many of the City's general ledger account balances became materially misstated during the year and were not properly reconciled until after June 30, 2003. This situation caused internally generated financial reports to be misstated and placed the City at risk of having assets misappropriated and not being detected by City officials within a reasonable period of time. |
| Cause: | Many factors are responsible for this situation; however, the main reason was that the Controller's office does not have sufficient, competent personnel to perform these duties. There was also significant turnover in key accounting positions, particularly the Controller and Finance Director/Treasurer. |
| Recommendation: | Timely reconciliations are essential to the fair presentation of financial information based on accounting records. We strongly recommend that the City review their current procedures and make appropriate alterations to those procedures to ensure that all general ledger account balances are properly reconciled in a timely manner throughout the year. These alterations should include determining the appropriate number of competent staff in the Fiscal Services Department and the allocation of duties within the Department. |
| Status: | This matter has not been corrected for the year ended June 30, 2006. |
| Response: | The City does agree that it needs to look at the sufficiency of the staffing levels within the Controller's office, and that the turnover of staffing has impacted the internal reporting and record keeping for the City. The staffing level is being addressed, and all personnel are being trained on the proper use of the accounting software for the first time since it was installed in 1999. |

City of Saginaw, Michigan
Schedule of Findings and Questioned Costs
June 30, 2006

2004-1 Reportable Condition Considered to be a Material Weakness

Criteria: A strong system of internal controls mandates that cash accounts are properly reconciled on a periodic basis.

Condition: The City is not preparing bank reconciliations in a timely manner. The bank reconciliation for June 30, 2004 for the pooled cash account was not fully completed until March 2005. When the reconciliation was complete the reconciling items included unidentified deposits and incorrect payroll transfers that remained unresolved.

Questioned Costs: None.

Effect: When the City does not reconcile their cash accounts on a timely basis, the cash is more susceptible to fraud and misstatement. Also, incorrect payroll transfers cause insufficient funds to be available in the payroll account when checks are cashed and is resulting in the bank cashing the checks but charging a service fee for each check that is presented when there are insufficient funds.

Cause: Many factors are responsible for this situation; however, the main reason was that the Controller's office does not have sufficient, competent personnel to perform these duties.

Recommendation: We strongly recommend that the City review their current bank reconciliation procedures and make appropriate alterations to those procedures to ensure that all bank account balances are properly reconciled in a timely manner throughout the year. We also recommend that the procedures include the timely resolution and correction of reconciling items.

Status: This matter has not been corrected for the year ended June 30, 2006. The June 30, 2006 bank reconciliation was not completed until November 2006. In addition, the bank reconciliation included an unreconciled difference as of June 30, 2006. Also, we noted that the bank reconciliations are not sufficiently reviewed upon completion. Therefore, we also recommend that all bank reconciliations be reviewed and approved after they are completed.

Response: When the current Finance Director began working with the City in March 2006, the bank reconciliations were several months behind. This situation has existed within the City for several years.

City of Saginaw, Michigan
Schedule of Findings and Questioned Costs
June 30, 2006

More recently, this problem was caused by numerous issues that had been encountered between the years of 2004 and 2006, but the audits had been late during that time frame largely due to the turnover in staff and the fact that certain records, such as the SEDC records, were taken off site as a part of an investigation. The unreconciled difference as of June 30, 2006 related to an SEDC transaction. This transaction involved an SEDC loan setup issue within the database that serves as the underlying source for all of the City's transactions. It was discovered by the Controller's office as a part of the reconciliation process, and it will be addressed when the SEDC records are returned to the City staff.

2004-2

Reportable Condition Considered to be a Material Weakness

Criteria:

A strong system of internal controls mandates that proper supporting documentation be maintained to provide for sufficient evidence of a transaction. Specifically, a receipt should support all cash and check collections by the City as a part of the records for all cash collection transactions. Also, other supporting documentation, such as remittance advices should be maintained for significant transactions to further support the amounts receipted into the City's records.

Condition:

The City does not maintain printed receipts for all transactions and in many cases the supporting documentation for significant receipts is not maintained.

Questioned Costs:

None.

Effect:

For many significant receipting transactions there was inadequate supporting documentation to provide sufficient evidence of the transaction reflected in the City's financial records. This results in significant time being expended to obtain any available supporting documentation when needed at a later time and increases the risk that any fraud or misstatement will not be detected in a timely manner.

Cause:

The Treasurer's office does not have appropriate procedures in operation that identify inadequate documentation and, therefore, appropriate action was not taken to correct the situation.

Recommendation:

We recommend that the current procedures be reviewed and appropriate alterations to those procedures be made to ensure that receipts are printed for all transactions and any supporting documentation that is available is included with the appropriate receipt.

City of Saginaw, Michigan
Schedule of Findings and Questioned Costs
June 30, 2006

Status: All items selected for further examination during the audit for the year ended June 30, 2006 were adequately supported. However, the City does not always maintain supporting documentation for receipts in one central location.

Response: The City does maintain support for all receipts, but it is impractical for all supporting documentation to be kept in one central location. The Treasurer's office does retain remittance advices and all transactions that pass through the Treasurer's office are supported by documentation. Some documentation is in an electronic format retained on the City's network, as photocopies of all checks are kept on file. It should be noted that this comment stemmed from policies and procedures in place back in 2004 when the City encountered some internal control problems. These control problems were addressed in 2004, and the applicability of this comment to the 2005-06 fiscal year is believed to be incorrect. Documentation for certain types of receipts – building permits, CDBG payments, business licenses, and rental registration receipts, are sent back to the respective Department. Duplicates of all of these receipts can be produced by the system, and copies of checks can be retained for an indefinite period of time.

2004-3 Reportable Condition Considered to be a Material Weakness

Criteria: A strong system of internal controls over cash requires that procedures be established to reconcile the cash receipts recorded in the accounting records to the physical receipts and that those items also are reconciled to the bank deposits. These procedures should involve a variety of individuals to provide for adequate segregation of duties within the cash receipting function to prevent any one individual from controlling all aspects of a cash receipt transaction. The proper segregation of duties and adequate procedures are essential to ensuring that receipts are properly reflected in the financial records and to reduce the risk of fraud.

Condition: During the fiscal year, the cash drawers in the Treasury Department were not consistently reconciled, on a daily basis, to the cash post listings produced by the cash receipt system. As a result, each type of tender from an individual cashier's drawer did not always agree to the breakdown of receipts by tender type in the cash post listing. In addition, the individual cashier was responsible for the reconciliation of their drawer to the cash post listing and the creation of a deposit ticket based on the daily cash receipts.

Questioned Costs: None.

City of Saginaw, Michigan
Schedule of Findings and Questioned Costs
June 30, 2006

Effect: The cash drawer counts did not always agree to the cash post listing which resulted in inconsistencies in the financial records, the daily deposits and the cash receipt documentation. The lack of adequate segregation of duties and inadequate controls creates the opportunity for fraud.

Cause: The Treasurer's office did not have appropriate control procedures in operation to provide an appropriate segregation of duties and to identify this issue and, therefore, appropriate action was not taken to correct the situation.

Recommendation: We recommend that the current procedures be reviewed and appropriate alterations to those procedures be made to provide for the segregation of duties and increased controls within the cash receipts function.

Status: This matter has not been fully corrected for the year ended June 30, 2006. During our audit we did not note any specific instances of the cash drawers not being reconciled on a consistent basis or instances of counts not agreeing to the cash post listing. However, due to turnover in staff and heavy volume in the Treasurer's office, there still remain instances where the segregation of duties is not optimal.

Response: The City does not agree with this comment, as it applies to an internal control issue back in 2004. That issue was addressed as soon as it was encountered in that year. The Treasurer's staff does not recall any auditors inquiring into the internal controls for their office as a part of the audit just completed. The procedures for balancing out cash and reconciling batches has changed significantly since 2004. No one person is involved in any cash receipts transaction, and the daily balancing involves at a minimum two individuals. At the end of each day, all cashiers balance their cash drawers. A cash report is produced by the accounting software, and both the cash and checks received are individually balanced. If a question arises on any receipt, the City's copy of the receipt is available for staff to review. Receipts cannot be voided by cashiers, a supervisor is needed to approve any voided transaction. The daily balancing is reviewed by supervisory staff. Periodically, Treasury audits each cash drawer, the petty cash drawer, and the change drawer. These audits are done with no notice.

City of Saginaw, Michigan
Schedule of Findings and Questioned Costs
June 30, 2006

2004-4 Reportable Condition Considered to be a Material Weakness

Criteria: A strong system of internal controls mandates that proper supporting documentation be maintained to provide for sufficient evidence of a transaction. Specifically, manual adjustments to the financial records should be supported by adequate documentation of the purpose, appropriateness and proper approval of each adjustment.

Condition: Manual adjustments to the financial records that were made by City staff throughout the fiscal year were not filed with adequate supporting documentation.

Questioned Costs: None.

Effect: Information that is used to prepare and support manual adjustments is often needed at a later date and significant time and effort must be expended to recreate the documentation when the documentation is inadequate. With the changes in staffing in the Fiscal Services Department, there have been situations where the supporting documentation could not be reconstructed.

Cause: The policy of the Finance Director/Treasurer was that supporting documentation was not required to be maintained with a printed copy of the adjustment as long as the documentation could be recreated if needed.

Recommendation: We recommend that the Fiscal Services Department require that all manual adjustments be filed with adequate supporting documentation. We also recommend that all manual adjustments are properly reviewed, retained and indicate appropriate management approval.

Status: This matter has not been corrected for the year ended June 30, 2006.

Response: It is the policy of the Fiscal Services Department that all adjustments be supported by adequate documentation. All transactions, manual and computer generated, are reviewed by a supervisor. During the audit, we were not made aware of any transactions that did not include adequate support. In certain circumstances, other Departments do initiate transactions on the accounting software. This is due to the decentralized structure of the Fiscal Services Department as it relates to certain tasks (payroll, accounts receivable, and accounts payable). Additionally, other transactions are automatically generated by the software for various types of transactions. The individuals responsible for updating transactions in the accounting software are aware of the fact that all transactions must be supported by adequate documentation.

City of Saginaw, Michigan
Schedule of Findings and Questioned Costs
June 30, 2006

2004-5 Reportable Condition Considered to be a Material Weakness

Criteria: The maintenance of accurate, complete subsidiary records is necessary to provide sufficient detail of the transactions within the general ledger. Specifically, for those billings processed through the accounts receivable system, the system should provide accurate detail of the invoices outstanding by customer at any given point in time and this detail should directly support the receivable accounts reflected in the general ledger.

Condition: Accurate, itemized listings of outstanding invoices for City customers cannot be generated from the City's accounts receivable subsidiary module without specific manipulation of the data. As a result, a special query based on criteria defined by City staff is created to identify by customer, which billings are outstanding at a given point in time. Because these are custom written requests for information, there is the possibility that the criteria will not be properly defined to generate accurate information either by error or design.

Questioned Costs: None.

Effect: Information that is used to reconcile the receivable general ledger balances may not be reflecting the true outstanding receivables and manual adjustments are made to these balances that are incorrect. In addition, the City cannot identify accurately what invoices are unpaid by customer and therefore, they cannot prepare a proper aging of those balances. This makes it difficult to pursue collection of the balances and to estimate the uncollectibility of any given invoice.

Cause: The cashiers in the Treasury Department are not properly trained on the correct manner to enter receipts into the system to apply payments against the proper invoice and/or they are simply deciding not to enter an invoice number with the receipt.

Recommendation: We recommend that the Treasury Department take all steps possible to have cashiers enter an invoice with the corresponding receipt. This may require additional training for the cashiers and additional procedures for entering amounts into the system but will result in the information contained in the accounts receivable module to be more accurate and also allow for the generation of system reports that were created by the software company rather than the custom reports.

Status: This matter has not been corrected for the year ended June 30, 2006.

City of Saginaw, Michigan
Schedule of Findings and Questioned Costs
June 30, 2006

Response: This issue involves several areas, but is being addressed as a part of the training on the accounting software that all Departments within the City are receiving. While the Treasurer's office is involved to the extent that they can select how payments are to be applied, there are other issues that the City needs to address to full rectify this problem. This includes how charges are entered and updated on the system, how other Departments have been handling adjustments to charges, and other issues that are being addressed as a part of the training for the City staff. The default for the accounting software is to apply payments to the oldest invoice first. The cashiers have been trained on how to override this process and select, when necessary, another invoice to apply payments towards. Additionally, difficulties arise whenever customers send in payments via other means, such as online bank payments. These methods often produce a check from a third party, and applicable information such as an account number is often not available. For individuals with multiple accounts and/or multiple charge codes/invoices, this presents potential problems when applying the payment. This problem is common among municipalities.

2004-6 Reportable Condition Considered to be a Material Weakness

Criteria: The maintenance of accurate, complete subsidiary records is necessary to provide sufficient detail of the transactions within the general ledger. Specifically, the detailed records of billings that are not generated from the accounts receivable system should be maintained to support the receivable balance recorded in the general ledger.

Condition: Accurate, itemized listings of receivables that are not billed and tracked through the receivable module are not maintained for every receivable account and must be created at year end.

Questioned Costs: None.

Effect: Information that is used to reconcile the receivable general ledger balances is created only at year end and may not be reflecting the true outstanding receivables; also manual adjustments are made to these balances that are incorrect. In addition, the age and collectibility of these accounts is not evaluated until that time, if at all.

City of Saginaw, Michigan
Schedule of Findings and Questioned Costs
June 30, 2006

Cause: The City does not have regular reconciliation procedures in place that require maintenance of these subsidiary records and regular review of the status of these receivables.

Recommendation: We recommend that the Fiscal Services Department take all steps possible to maintain subsidiary records for these receivable accounts on a regular basis.

Status: This matter has not been corrected for the year ended June 30, 2006.

Response: This item is inter-related with 2004-5, and is being addressed as a part of the software training being conducted by the City. This training involves all City Departments, not just the Fiscal Service Department, and includes addressing issues related to charge code setup, general ledger postings, and procedural issues related to handling the modules within the accounting software. The detail supporting the open charges in the software did not substantially differ from the detail posted to the general ledger, but past practices of how adjustments were posted to the general ledger have caused the detail to differ from the general ledger for a variety of reasons. In the past, if a charge code was setup to post to a particular general ledger account and it was adjusted (either by City staff or through an auditor adjustment), that would cause the detail to differ from the general ledger within individual accounts, but the total detail within the accounting software was correct. The solution should have been to have correct the transaction not through an adjusting entry, but by correcting the underlying source of the transaction (in many cases – the charge code). This is currently being fixed by the City's staff, and it is anticipated that the data within the software will be cleaned up and the staff fully trained on the receivable and loan modules before June 30, 2007.

As for reviewing the outstanding balances and subsequent collections, the Fiscal Services staff is aggressively pursuing the collections of all outstanding charges listed on the system. The use of the charge codes, along with the past problems related to posting adjustments to the general ledger (through both internal adjustments and auditor initiated entries) has been discussed with the external auditors. The open charge listing they received at the initiation of the audit was a complete listing of all updated charges. Some of these are collected through the process of transferring the charge to the tax bills for a particular property, some have been turned over to outside collections, and some collections are being handled by City staff. When necessary, the City's Attorney has assisted with various legal matters related to collections.

City of Saginaw, Michigan
Schedule of Findings and Questioned Costs
June 30, 2006

| | |
|--------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2004-7 | Reportable Condition Considered to be a Material Weakness |
| Criteria: | The State of Michigan requires that local municipalities that collect taxes on behalf of others distribute those collections in a timely manner. Failure to comply with this requirement needs to be reported by the auditor to the State of Michigan. |
| Condition: | The City has not distributed tax collections that are received through the Tax Collection Agency Funds to the other units in a timely manner. |
| Questioned Costs: | None. |
| Effect: | The City has tax collections, such as a 2001 payment in lieu of taxes, that have not yet been distributed to the proper units. The City Treasurer has also paid some units more in taxes than was collected on their behalf. The Treasurer did not identify these problems in the normal procedures and now the City is not in compliance with State of Michigan requirements for collections and disbursements to other units. |
| Cause: | The Treasurer was not performing regular reconciliations of the tax collection agency accounts and also not associating disbursements to the other units with specific collections. |
| Recommendation: | We recommend that the Treasury Department take all steps possible to reconcile the tax collection agency funds on a regular basis to determine the amounts to be returned to the City or distributed to the other governmental units. We also recommend that each disbursement to a unit be supported by specific documentation of the collections that have been received on the unit's behalf. The Treasury Department must closely monitor these funds to ensure that they return to compliance with State requirements. |
| Status: | This matter has not been corrected for the year ended June 30, 2006. The payments in lieu of taxes have yet to be distributed to the applicable other units of government. In addition, the City was not in compliance with the State requirements or the local agreements with the other municipalities for distributing their current year tax collections to other taxing entities. |
| Response: | The City did distribute the payments in lieu of taxes at the beginning of July 2006, so this comment did apply to the fiscal year ending June 30, 2006. The City had established a schedule at the beginning of the fiscal year for the distribution of taxes, and this schedule was sent to the appropriate authorities. |

City of Saginaw, Michigan
Schedule of Findings and Questioned Costs
June 30, 2006

This has been addressed, and current tax collections are being made on a weekly basis.

2004-9 Reportable Condition

Criteria: All disbursements of City funds should be supported by adequate documentation and recorded within the City's general ledger.

Condition: The City paid a single invoice to a vendor twice using different methods of payments. The first payment was by check to the vendor and the second payment was through a wire transfer directly from the City's bank account to the vendor's account. The wire transfer was not recorded in the general ledger.

Questioned Costs: None.

Effect: The City paid a vendor twice for the same invoice and did not have adequate accounting records to identify this situation until the bank reconciliations were finally completed and the wire transfer was identified.

Cause: The Treasurer's Department does not have adequate procedures in place for wire transfers that would result in the communication of these wire transfers to the Fiscal Services Department in a timely manner, and that proper documentation of the purpose and approval of the wire transfers would be maintained as a part of the accounting records in the Fiscal Services Department.

Recommendation: We recommend that the Treasury Department implement procedures to ensure that wire transfers are done only when proper documentation of purpose and approval has been prepared and that these procedures include communication of these transactions to the Fiscal Services Department for proper recording in the general ledger.

Status: This matter has not been fully corrected for the year ended June 30, 2006. There was improved communication between the Fiscal Services and Treasury Departments. However, there were instances of duplicate payments to vendors, resulting from the fact that the City was billed by the vendor on two separate invoices.

City of Saginaw, Michigan
Schedule of Findings and Questioned Costs
June 30, 2006

Response: The City does not agree with the description of this comment. The 2004-9 comment was related to an internal problem within Fiscal Services where the Controllers office paid an invoice and an employee new at that time to the Treasurer's office electronically paid the same invoice by mistake. The matter back in 2004 involved a lack of communication within the Fiscal Services office.

The situation that occurred in 2006 did not involve the Fiscal Services Department staff, so there was no breakdown of communication or error specifically related to that Department. It involved a Community Development Block Grant (CDBG) payment that had been entered into the accounting software by staff within that Department. The overpayment involved demolition work that an outside vendor submitted for payment twice using separate invoices on separate dates. Both of these invoices were received within that Department and had been authorized for payment by supervisors within the CDBG Department. The Fiscal Services staff discovered the overpayment, and the matter was rectified with the vendor. This situation was discovered because stronger internal controls are being implemented within the Fiscal Services Department. The CDBG office will look more closely at scheduled demolitions and related vendor payments.

2005-1 Reportable Condition Considered to be a Material Weakness

Criteria: A strong system of internal controls mandates that adequate segregation of duties exists over the general ledger posting process.

Condition: Several employees can create and post journal entries to the general ledger without separate approval. Specifically, there are Treasury Department employees that can make wire transfers of cash and then post these entries to the general ledger without prior, written approval of the entry.

Questioned Costs: None.

Effect: Journal entries can be posted to the general ledger system, without any indications of review or approval.

Cause: The City does not have procedures in place that require review and approval of all journal entries prior to posting to the general ledger.

City of Saginaw, Michigan
Schedule of Findings and Questioned Costs
June 30, 2006

Recommendation: We recommend that the Fiscal Services Department develop procedures that require that all journal entries be reviewed prior to posting by a proper member of management.

Status: This matter has not been corrected for the year ended June 30, 2006.

Response: The City does currently have a policy that supervisors review all journal entries prior to posting, but with the turnover of staff that occurred during the 2005-06 fiscal year, this practice was difficult to follow during the entire course of the fiscal year. With turnover in both the Treasurer and Finance Director positions encountered during 2005-06, the daily balancing of transactions within the Treasurer's office occurred, but some manual adjustments were not reviewed in a timely manner until all accounts were reconciled. The Treasury Department did have some wire transfers initiated and approved by the same person during the 2005-06 fiscal year. The policy for the Fiscal Services Department is to have a second person review all such payments and transfers prior to submission, but with reduced staffing levels this has been difficult to follow. The online transactions are restricted in the accounts that can be involved on both the sending and receiving end of the transfers, though.

2005-4 Reportable Condition

Criteria: OMB Circular A-87 requires that all indirect costs charged to grant funded programs be in accordance with central service cost allocation plans approved by the cognizant agency or, in cases where such plans are not subject to approval, in accordance with the plan on file.

Condition: The City is currently charging grant-funded activities for indirect costs without formal, approved cost allocation plans.

Questioned Costs: None.

Effect: The City is requesting reimbursement for potentially unallowable indirect costs, specifically for information management services for which there is no formal plan.

Cause: The City has charged grant-funded activities, specifically those in the Community Development Block Grant Fund, based upon the methodology developed during the budgeting process without having this method approved by the grantor agency.

City of Saginaw, Michigan
Schedule of Findings and Questioned Costs
June 30, 2006

Recommendation: We recommend that the City establish procedures to ensure that formal cost allocation plans are approved by the various grantor agencies prior to grant-funded activities being charged for any indirect costs.

Status: This matter has not been corrected for the year ended June 30, 2006.

Response: The City last updated its cost allocation plan in 2002. OMB Circular A-87, Attachment C, section G deals with the application of adjustments to both allocated and billed central service costs per a formal cost allocation plan. Specifically, the Circular states that “fixed amounts for the future year covered by agreement are not subject to adjustment for that year. However, when the actual costs of the year involved become known, the differences between the fixed amounts previously approved and the actual costs will be carried forward and used as an adjustment to the fixed amounts established for a later year. This “carry-forward” procedure applies to all central services whose costs were fixed in the approved plan.” The Circular does not specifically call for a new “plan” each year, but the amounts billed or allocated should be adjusted once actual results are known.

This comment arises because of the way the CDBG office handled questions during a HUD review. HUD had posed questions related to certain indirect costs charged, but the response specifically related to this question came from the CDBG personnel and did not involve the Finance Director for the City. The Fiscal Services Department does have a cost allocation plan that was developed, and the costs allocated to other Departments are reviewed and updated for each fiscal year. The CDBG office incorrectly stated that the “budget as approved by Council is in effect our indirect cost plan.” The plan previously developed by Maximus serves as the City of Saginaw’s cost allocation plan. The amounts charged per that plan are initially allowable, and carry-forward adjustments are to be applied to the amounts charged in future periods per OMB Circular A-87. The City does want to review its plan to determine whether the assumptions and methodology listed in the plan need to be updated, so Maximus is currently reviewing the plan document and will inform the City of any adjustments required.

The City of Saginaw is not required to have its cost allocation plan approved in writing by cognizant agencies prior to costs being charged. That is per OMB Circular A-87, Attachment C, Section D paragraph 3.

City of Saginaw, Michigan
Schedule of Findings and Questioned Costs
June 30, 2006

| | |
|--------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2005-5 | Reportable Condition Considered to be a Material Weakness |
| Criteria: | A strong system of internal controls mandates that the City employ sufficient properly trained and supervised staff to ensure accurate reporting of the City's financial position during the year. |
| Condition: | The City does not currently have an adequate number of properly trained staff within the Fiscal Services Department to ensure that the City's financial position can be reasonably and accurately determined during the fiscal year. |
| Questioned Costs: | None. |
| Effect: | Many of the City's general ledger account balances become materially misstated during the year, which places the City at serious risk of having assets misappropriated. In addition, this situation places the City's management and council at severe disadvantages in the administration of the City's finances and budget. Also, this has caused management-level employees in the Fiscal Services Department to be too active in the day-to-day accounting function to perform their necessary oversight activities, thereby creating a lack of segregation of duties. |
| Cause: | The primary reason for this situation is that the Fiscal Services Department does not have sufficient, competent personnel. |
| Recommendation: | We strongly recommend that the City review the components of the current Fiscal Services staff and make the appropriate necessary steps to ensure that all staff receive appropriate training to meet the requisite competency levels. We also recommend that management evaluate their involvement in the day-to-day accounting function to determine the appropriate steps to expedite the workload and review process. |
| Status: | This matter has not been corrected for the year ended June 30, 2006. |
| Response: | The City of Saginaw agrees with this finding. A Finance Director was added in March 2006, and staffing is being evaluated and trained as needed to ensure that accurate, timely financial information will be provided. The reduction of personnel in the past impacted the City in several ways. Certain tasks were decentralized such as Accounts Payable and Accounts Receivable data entry. This contributed to other findings previously mentioned for the City, and had a direct correlation to the ability to reconcile information in the accounting software. |

City of Saginaw, Michigan
Schedule of Findings and Questioned Costs
June 30, 2006

Due to the decentralization of various accounting-related tasks, it is not uncommon for another Department to initiate a transaction which is incorrect or has inadequate support. This forces external auditors to provide audit comments to the Fiscal Services staff, and complicates the financial reporting whenever the Fiscal Services Department has difficulty in obtaining responses and/or support to a transaction in a timely manner. The end result is that the Fiscal Services staff are often placed in a position whereby they need to decide whether they update/post the transaction without adequate explanations or support, or whether they hold up the financial reporting until the explanations are received. Posting of transactions without adequate support has been previously discussed, and the Fiscal Services staff is working hard to alleviate this situation. However, a large portion of the problems encountered were due to the turnover of key staff positions and the impact this had on updating/posting transaction in the system. It has been recommended that the Fiscal Services office add back the Deputy Controller position to help assist with tracking grants and reviewing account reconciliation work. Other staffing needs are being evaluated and will be addressed.

All financial-related tasks that are currently being handled by other Departments need to be coordinated with the Fiscal Services Department. This includes involving Fiscal Services in all grant tracking and reporting, debt issuances, fixed asset purchases, project reporting, receivable adjustments, and other areas. Additionally, other Departments that have significant impact on the functionality and use of the accounting software need to coordinate on the training, updates, and problems encountered in their areas to ensure that prioritization can be established that will match overall organizational goals and objectives.

The only way the City has been able to catch up with its record keeping is through the assignment of staff duties to supervisory personnel. This does create a potential problem related to the segregation of duties, but the Fiscal Services Department's policy is that all transactions require a review by at least a second responsible individual. The cut back in staffing over the past few years has shifted many tasks that would normally be handled by staff onto the supervisors within the Department. These cut backs were necessary to balance the budget for the City of Saginaw. Most of the comments in this Schedule of Findings and Questioned Costs are directly related to the problems caused by the staffing levels within the Fiscal Services Department.

City of Saginaw, Michigan
Schedule of Findings and Questioned Costs
June 30, 2006

2006-1 Reportable Condition

Criteria: ACT 51 requires that no more than 10% of Michigan Transportation Fund, Winter Maintenance and interest revenues of the Major and Local Street Funds be spent on administrative activities.

Condition: Fiscal Services does not currently have an adequate review process of the Major and Local Streets Funds to determine that the 10% limit is not over-spent during the year.

Questioned Costs: None.

Effect: During the year, administrative and non-administrative expenditures are commingled on the City's general ledger. The amounts reported on the annual ACT 51 Report submitted to the State also do not necessarily agree to the amounts indicated on the general ledger.

Cause: The primary reason for this situation is that the administrative expenditures charged to the general ledger are partly based upon budget allocations and are not updated periodically to reflect actual expenditures during the year.

Recommendation: We strongly recommend that the City review the process for charging administrative expenditures to the Major and Local Streets Funds to ensure that they are within the 10% limitations required by ACT 51.

Response: The City anticipates that the addition of the Finance Director and the training of City staff will rectify this situation. Additionally, the City is more closely monitoring the general ledger account postings for both Payroll and Accounts Payable data entry to ensure costs are correctly classified. Staff are being trained in the Fleet and Fixed Asset modules within the accounting software to ensure that equipment costs are being correctly charged out, and the work order system is being evaluated and will be correctly implemented to ensure direct costs are correctly classified.

It should be noted that in past years the General Fund always had provided contributions in excess of those required to meet the matching requirements. Act 51 states "the documented expense of administration, including indirect engineering and record keeping, may be charged to the street funds up to a maximum of 10 percent of the funds returned to the local unit, under the provisions of Section 13(6)(d) of the Act. General fund contributions in excess of those required...may be used up to 100 percent to cover excess

City of Saginaw, Michigan
Schedule of Findings and Questioned Costs
June 30, 2006

administrative expenses. However, administrative expenses must be documented and reasonable.” This was discussed with the Michigan Department of Transportation before the submission of the Act 51 reports.

2006-2

Reportable Condition

Criteria: A strong system of internal controls mandates that inventory accounts are properly reconciled on a periodic basis.

Condition: The City is not reconciling physical inventory counts to the general ledger in a timely manner. Additionally, reports prepared to reflect physical counts include obsolete items and items no longer held in inventory by the City.

Questioned Costs: None.

Effect: When the City does not reconcile their inventory accounts on a timely basis, the inventory is more susceptible to fraud and misstatement.

Cause: The City does not have procedures in place to periodically reconcile physical inventory counts to the general ledger.

Recommendation: We strongly recommend that the City review their current inventory reconciliation procedures and make appropriate alterations to those procedures to ensure that all inventory account balances are properly reconciled to physical inventory counts in a timely manner throughout the year.

Response: The City disagrees with a portion of this comment. Procedures are in place to perform physical inventory counts, and it has been the practice of the City to perform the physical inventory counts annually. A large portion of the problem encountered in this area rests with the use of the software, especially as it pertains to the year-end processing. The Inventory module has not been correctly closed out at year-end, and this has caused additional work to be performed related to reconciling the general ledger balances. This occurred both at June 30, 2005 and June 30, 2006. The problems encountered are directly related to the training the staff has received on the accounting software, and has since been addressed through hands-on training specifically related to this module. This training is inter-related with the Fleet training and with training in other modules within the accounting software. At no point were the detail count sheets lost, and the actual quantities and value of the Inventory were determinable. The majority of the problem rested in the

City of Saginaw, Michigan
Schedule of Findings and Questioned Costs
June 30, 2006

use of the software and whether the general ledger accounts were automatically updated or required adjusting entries to reflect final inventory balances.

2006-3 Reportable Condition

Criteria: A strong system of internal controls mandates that procedures are in place to ensure accurate record keeping of capital assets.

Condition: The City does not have sufficient procedures in place to ensure capital asset additions and deletions are properly accounted for in the City's capital asset records.

Questioned Costs: None.

Effect: The City's capital asset records and general ledger required several audit adjustments in order to avoid misstatement.

Cause: The Fiscal Services Department does not have procedures in place to track capital asset additions and disposals on a periodic basis. The City currently tracks capital assets at year-end by utilizing spreadsheets with minimal, and often insufficient, detail.

Recommendation: We strongly recommend that the City review their current procedures for tracking capital assets and make appropriate alterations to those procedures to ensure capital assets are recorded correctly without significant audit adjustments. We also recommend the City utilizes software specifically designed for capital asset record keeping to simplify the process.

Response: The City of Saginaw agrees with this finding. The past practice of tracking assets with a spreadsheet is being addressed. The accounting software includes a module for fixed assets that integrates with other modules. This will allow for the City to more accurately track fixed asset additions and deletions, equipment rental costs, equipment maintenance, charges to Streets Funds, and other important tasks. The training for the fixed assets module is scheduled for April 2007.

City of Saginaw, Michigan
Schedule of Findings and Questioned Costs
June 30, 2006

2006-4 Reportable Condition

Criteria: A strong system of internal controls mandates that procedures are in place to ensure accurate record keeping of long-term debt, including installment contracts meeting the criteria for capital leases.

Condition: The City makes bond payments via wire transfer, which are posted to the general ledger by journal entry. However, the debt payments are often posted to the wrong general ledger account, causing the debt to be misstated. In addition, the City purchased several assets using installment contracts and leases during the year, however, only the actual cash payments were included on the general ledger.

Questioned Costs: None.

Effect: The City's long-term debt and capital asset schedules and general ledger required several audit adjustments in order to avoid misstatement.

Cause: Journal entries posting the debt wire transfers are not properly reviewed to determine that the proper general ledger accounts are used. Long-term debt schedules are not reviewed and updated to ensure that they reflect all applicable debt until after year-end. The Fiscal Services Department does not have procedures in place to track capital assets purchased via installment contracts.

Recommendation: We strongly recommend that the City review their current procedures for posting long-term debt journal entries, tracking capital assets, and updating applicable debt and asset records and make appropriate alterations to those procedures to ensure all long-term debt is recorded on the general ledger and applicable supporting schedules.

Response: The City agrees with this comment. Part of the problem occurred through a lack of personnel within the Fiscal Services Department. The personnel situation is being addressed, and the procedures for recording transactions have changed. All transactions now require the review of a second person. Additionally, the Treasurer's office is ensuring that it updates and maintains information related to all debt for the City. A portion of this problem has been caused through the decentralization of tasks within the City. The Fiscal Services Department has not been involved in all debt issuances up front, so procedures are being implemented to ensure that all Departments coordinate all debt-related activity with the Fiscal Services Department.

City of Saginaw, Michigan
Schedule of Findings and Questioned Costs
June 30, 2006

2006-5 Reportable Condition

Criteria: The maintenance of accurate, complete subsidiary records is necessary to provide sufficient detail of the transactions within the general ledger. Specifically, for those payments processed through the accounts receivable system, the system should provide accurate detail of any over or pre-payments.

Condition: Accurate, itemized listings of outstanding over or pre-payments for City customers (recorded as contra receivables on the general ledger) cannot be generated from the City's accounts receivable subsidiary module.

Questioned Costs: None.

Effect: The contra receivable general ledger accounts carried large credit balances throughout the year and became significantly misstated.

Cause: The accounts receivable module has not been properly utilized. In addition, the contra receivable accounts are not reconciled during the year.

Recommendation: We recommend that the City review their current procedures and make appropriate alterations to those procedures to ensure that the contra receivable general ledger balances are properly reconciled in a timely manner throughout the year.

Response: The City is reviewing the accounts receivable module in the accounting software. This is a multi-step process, and it is being coordinated with the company involved in the training of the accounting software for the City. The setup for this module has been reviewed and issues that impact the contra accounts are being addressed.

2006-6 Reportable Condition

Criteria: A strong system of internal controls mandates that all grants received by the City are recorded in the general ledger.

Condition: The City received several grants that the Fiscal Services Department was not aware of, specifically the EPA grant for construction of 2 wastewater pumping stations and sewer main replacement, the MEDC grant for construction along East Genesee, and the HAVA voting system reimbursement.

City of Saginaw, Michigan
Schedule of Findings and Questioned Costs
June 30, 2006

Questioned Costs: None.

Effect: Grant revenues and expenditures were not properly recorded in the general ledger.

Cause: The Fiscal Services Department does not have an established communication system with other departments to ensure that they are aware of all grants.

Recommendation: We recommend that the Fiscal Services Department take all steps possible to ensure that all future grants are properly identified and recorded on the general ledger.

Response: The City agrees with this comment. A great deal of this problem occurred through a lack of personnel within the Fiscal Services Department. The grant application process within the City is largely decentralized, and often does not involve Fiscal Services staff. This has led staff in other Departments to maintain that the grant tracking and reporting is a responsibility solely of their functional area, and that the Fiscal Services staff do not need to become involved. Because of this, procedures are being implemented to ensure that all Departments communicate grant-related activity with the Fiscal Services Department, and it is being recommended that the Deputy Controller position is added back to the Fiscal Services compliment, as that position is responsible for grant tracking.

2006-7 Reportable Condition

Criteria: The pension ordinance requires no disbursement shall be made from funds of the system unless approved by a specific or continuing motion adopted by the Pension Board of Trustees.

Condition: An employee, Patrick McGowan, retired effective July 23, 2005 without formal approval by the Board of Trustees. In addition, the final benefit calculations were not reviewed and verified by the City's actuary prior to payment, as is customarily done.

Questioned Costs: None.

Effect: Pension disbursements were made that were never formally approved by the Pension Board.

City of Saginaw, Michigan
Schedule of Findings and Questioned Costs
June 30, 2006

- Cause:** The City allowed employees to receive benefits without ensuring that all applicable ordinance requirements were met.
- Recommendation:** We recommend that the City take the necessary steps to ensure that each retiree's benefits are submitted to the actuary in a timely manner. We also recommend that all future retirements are approved by the Pension Board of Trustees.
- Response:** The City agrees with this comment. The individual in question is being presented to the Pension Board for formal approval.

City of Saginaw, Michigan
Schedule of Findings and Questioned Costs
June 30, 2006

Prior Year Corrected Findings

2004-8 Reportable Condition

Criteria: To maintain accurate and complete accounting records and maintain adequate control of cash collections, the deposits and receipts of cash collections should occur in a timely manner.

Condition: The City has a few decentralized locations that make deposits of cash receipts directly at the bank and then provide the supporting documentation to the City Fiscal Services Department but these deposits are not reflected in the City's general ledger at the time of the transaction.

Questioned Costs: None.

Effect: The City's general ledger does not accurately reflect the activity of the decentralized locations and this often results in unidentified deposits that must be resolved before the monthly bank reconciliations can be completed. The general ledger also does not reflect the timing of the deposits and there are often issues with the deposits being recorded in the incorrect time period.

Cause: When the decentralized locations provide the supporting documentation to the City Fiscal Services Department, these transactions are not immediately recorded in the City's general ledger and may not be recorded for several days or even weeks.

Recommendation: We recommend that the Fiscal Services Department implement procedures to ensure that these transactions are recorded in a timely manner that results in the general ledger accurately reflecting the activity of the decentralized locations.

Status: This matter has been corrected for the year ended June 30, 2006.

2004-10 Reportable Condition

Criteria: The State of Michigan Uniform Accounting Procedures Manual issued by the Department of Treasury requires that the City use separate bank accounts for the current tax collections, ACT 51 road/street funds, bond issues and other restricted funds.

City of Saginaw, Michigan
Schedule of Findings and Questioned Costs
June 30, 2006

Condition: The City includes the cash of the Tax Collection Agency Funds, the Major and Local Street Funds, and restricted cash such as portions of the pension and drug forfeiture cash in the pooled cash account.

Questioned Costs: None.

Effect: The City is not complying with the State Uniform Accounting Procedures Manual.

Cause: A decision was made by the City Treasurer to include these funds in the pooled account.

Recommendation: We recommend that the City Treasurer establish separate bank accounts for the Tax Collection Agency Funds, ACT 51 funds and any restricted cash.

Status: This matter has been corrected for the year ended June 30, 2006. As of June 30, the City Treasurer has created separate bank accounts for the Tax Collection Agency Funds and the ACT 51 funds.

2005-2 Reportable Condition

Criteria: The pension ordinance requires that employees meet various requirements prior to retirement in order to receive pension benefits.

Condition: There were employees that retired during the year ended June 30, 2005 that did not meet the minimum requirements for retirement, but were still allowed to receive benefit payments. In addition, there are employees that retired prior to July 1, 2004 that also did not meet the requirements for retirement.

Questioned Costs: None.

Effect: The stated voluntary retirement age for a police officer/fire fighter to receive voluntary retirement is actuarial age fifty, as long as they have reached 20 years of credited service. On October 11, 2002, Deputy Police Chief O'Neal was allowed to retire with 16 years and 11 months of service. On January 21, 2005 Deputy Police Chief Booker was allowed to retire with 19 years and 1 month of service. The stated service credit requirements are that in no case shall less than 10 days of service rendered be credited as a month of service; nor shall less than 10 months of service in any calendar year rendered be credited as a year of service; nor shall more than one year of service be credited any member for all service rendered in any calendar year. On

City of Saginaw, Michigan
Schedule of Findings and Questioned Costs
June 30, 2006

January 2, 1996, Police Chief Perez was credited with 5 years of service upon payment to the pension system of 5% of his full-time compensation multiplied by the five years of service time. On December 28, 2002, Assistant Fire Chief Garcia was credited with 3 years and 5 months of service upon payment to the pension system of 5% of his full-time compensation multiplied by the 3 years and 5 months of service time. On August 14, 2004, Police Chief Pussehl was credited with 7 years and 4 months of service time upon payment to the pension system of \$38,459.99. On January 21, 2005, Deputy Police Chief Booker was credited with 11 months of service upon payment to the pension system of \$4,441.33. Since the aforementioned individuals did not meet the pension ordinance requirements, amendments to the ordinance were required to have been made by the City Council. However, no such action appeared to have been taken by the Council during the year ended June 30, 2005.

Cause: The City allowed employees to receive benefits without ensuring that all applicable ordinance changes were made.

Recommendation: We recommend that the City Council take the necessary steps to ensure that the ordinance is updated to allow these retirements. Also, we recommend that no payments are made to future retirees without the proper assurance that all requirements have been met.

Status: This matter has been corrected for the year ended June 30, 2006.

2005-3 Reportable Condition

Criteria: The City must comply with state statutes regarding the investment of the public funds.

Condition: There were investments held during the year ended June 30, 2005 that did not comply with these state statutes.

Questioned Costs: None.

Effect: The State has determined that investments which have been held by the City for over twenty years, are in violation of State investment guidelines. In addition, the City purchased insurance policies on key City employees to be held as long-term investments during the year ended June 30, 2005. These investments are held in the Public Employee Healthcare Internal Service Fund; however they are not allowable investments of the fund.

City of Saginaw, Michigan
Schedule of Findings and Questioned Costs
June 30, 2006

Cause: The City purchased the insurance policies without first establishing a public employee health care trust fund, thereby causing these investments to be unauthorized.

Recommendation: We recommend that the City establish a public employee health care trust in accordance with the Public Employee Retirement System Investment Act, PA 314 of 1965, MCL 38.1132 to 38.1140. No further action is recommended for the other unauthorized investments of the City because they have matured during the year ended June 30, 2006.

Status: This matter has been corrected for the year ended June 30, 2006.